United States Court of Appeals

for the Second Circuit

APPENDIX

74-1611

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

REA EXPRESS, INC.

Petitioner,

v.

CIVIL AERONAUTICS BOARD

Respondent.

Docket No. 74-1611

B/P/S

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September 25, 1974

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Before The
CIVIL AERONAUTICS BOARD
Washington, D. C.

Investigation of Air Express Rates	Docket 22387

MOTION OF REA EXPRESS TO INCLUDE AIR EXPRESS COMMITTEE REPORT IN THE RECORD IN THIS PROCEEDING

REA Express, Inc. (REA) moves that the attached portions of a report on Air Express prepared for and at the direction of the Air Express Committee by Booz Allen & Hamilton, Inc., be included in the record in this proceeding.

The report was transmitted to the Chairman of the Air Express Committee on November 27, 1968 by Booz Allen & Hamilton, Inc. However, REA did not have an opportunity to see the report until September 28, 1971 when a copy of it was supplied to the Examiner in the Express Service Investigation, Docket 22388, by counsel for the airlines. Thus, while the airline parties to this proceeding obviously were aware of the existence of the report throughout the pre-hearing and hearing stages of this case, REA has had no previous opportunity to attempt to make the report a matter of record in this proceeding.

Those portions of the report which REA requests be made a part of the record here are relevant to two key issues in this case: first, the report contains detailed data with respect to airline costs of handling and processing Air Express shipments; second, the report also supplies information on the airlines' cost-revenue relationships for Air Express, air freight, and air freight forwarder shipments. There is great dispute among the parties on both of these questions. Certainly, if this material had been available to REA prior to the close of the hearing, REA would have sought to introduce it in evidence. Since the data contained in the report are so important, it would be highly prejudicial to REA to deny inclusion of the report in the record in this proceeding merely because the airlines chose not to make it available until after the close of the hearing.

The report was prepared by highly respected consultants at the direction of and for the use of the airlines. In addition, as the report makes clear, the underlying data reflected in the report were obtained from the airlines. The report is therefore tantamount to an airline study and, because it contradicts in many important respects the data and conclusions urged by the airlines in this case, it deserves considerable weight in the

Examiner's deliberation. Further, the report is unique in that it apparently was not prepared for this or any similar litigation.

REA urges that the report be made part of the record and that it be considered by the Examiner. As far as REA is concerned, the report does not require a sponsoring witness or cross-examination. In our view, it is therefore unnecessary to reopen the hearing in this case for the purpose of receiving the report. While it would seem anomalous for the airlines to attack their own report, they are, of course, free to request that the hearing be reopened, and to supply and examine a sponsoring witness. REA would not object to a reopening of the hearing for the purpose of receiving the report or to the filing of additional briefs limited to the report.

It should be noted that the Booz Allen study is not an individual airline undertaking. It was performed to determine "the role of Air Express in Air Cargo"# at the request of the Air Express Negotiating committee which represents all airlines in the Air Express agreement.

For the reasons stated above, REA Express respectfully requests that the Examiner include the attached excerpts from

first page of transmittal letter

the Booz Allen & Hamilton, Inc. report on Air Express prepared for the Air Express Committee in the record in this proceeding and consider the facts contained therein in reaching a decision.

Respectfully submitted,

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October 19, 1971

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CERTIFICATE OF MAILING

This is to certify that on October 19, 1971 I caused the foregoing document to be served by first-class mail (air-mail west of the Mississippi River) upon all parties of record in CAB Docket 22387.

John J. C. Martin

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November 27, 1968

Mr. Andrew M. deVoursney
Chairman, Air Express Negotiating Committee
Air Transportation Association of America
1000 Connecticut Avenue, N. W.
Washington, D. C. 20036

Dear Mr. deVoursney:

We have completed our study of the role of Air Express in Air Cargo and are pleased to submit to you and the members of your committee the accompanying report. For the benefit of the reader, we have summarized in this letter our major findings and conclusions in broad terms.

Air Express differs from the airline air freight and air freight forwarder modes in only two important respects, tariff structure and dependability of service. In the weight range of 5 to 50 pounds, Air Express has a significantly lower rate for the bulk of shipments traveling by air. The rate advantage is also concentrated in the shorter haul shipments, with Air Express maintaining a rate advantage for shipments up to 75 pounds traveling less than 600 miles. At the same time, Air Express has not

achieved the same record of dependability in terms of on-time delivery and lost or damaged shipments as the other two air modes. Since shippers who choose to ship by air are very concerned with dependability, they tend to discount the rate advantage of Air Express.

In spite of a historical decline in the Air Express share of the small package market, public service considerations indicate the need for continuation of a service of this type. The low rates and broad coverage of the service are particularly important to the smaller shipment and infrequent shipper markets.

The economic variables of revenue and ground cost differ significantly among the three modes. The airlines' revenue per shipment from Air Express is lower than that from air freight and air freight forwarded shipments because of the revenue sharing arrangement with REA. The airlines' ground costs per shipment, however, are much lower for Air Express than for the other air modes, because REA has responsibility for many of the tasks involved in handling an Air Express shipment. Moreover, airline ground costs for Air Express traffic are lower by a greater margin than the difference in revenue.

Consequently, from the point of view of the airlines, Air Express appears to be the most advantageous means of handling shipments up to about 75 pounds. Up to that weight level, Air Express has a higher

differential between revenue and ground costs for any given length of haul than either the air freight or the air freight forwarder modes.

Recent increases in air freight rates on small shipments can be expected to cause some shift of traffic away from air freight. Based on this study, it appears desirable for the airlines to encourage such traffic to move by Air Express rather than by air freight forwarder. Such a diversion has the added advantage of freeing terminals for heavier, higher margin shipments.

In terms of the ground handling agency best able to provide the Air Express service, it appears that fixed costs are a primary consideration. The high fixed costs of facilities and equipment in many locations make it economical to spread these costs over a broader base than can be provided by Air Express alone. Thus, Air Express can best be handled if it is combined with other freight operations. This factor limits the number of ground operation alternatives for Air Express open to the airlines. Based on a direct comparison of all practical alternatives, REA has the potential to provide the airlines with the most desirable arrangement from an economic point of view. Furthermore, while serious deficiencies in the Air Express service now exist, REA is making major efforts to improve the level of service to the shipper.

It is clear that Air Express is a desirable means of serving the small shipment market for all parties concerned. A number of changes,

however, should be made in the existing arrangement between the airlines and REA in order to encourage growth of the service. Major efforts should be made to improve service to the shipper, particularly in the area of dependability. At the same time, tariff schedules should be adjusted to make Air Express profitable to both the airlines and REA while expanding the Air Express rate advantage over other modes to more shipments below 75 pounds. Finally, both parties to the agreement need to develop a better understanding of the desires and goals of the other party. They need to create a more manageable and efficient group with authority for operation and improvement of Air Express, all in the spirit of true partnership.

This has been a most interesting assignment, and we wish to express our gratitude to you, the members of your committee, the Air Transport Association, and airline personnel for the cooperation and assistance provided us to speed our work. We are prepared, of course, to discuss the following report with you and the members of the committee to whatever extent you deem appropriate.

Very truly yours,

Booz, Allen & Hamilton Inc.

II. AIR EXPRESS FROM THE AIRLINE POINT OF VIEW

II. AIR EXPRESS FROM THE AIRLINE POINT OF VIEW

In this chapter, the Air Express service is discussed from the point of view of the airlines as a group, with particular emphasis on the economics of handling small shipments. The analysis is based on consideration of the most advantageous way for the airlines to handle a given shipment going by air, with Air Express, air freight, and freight forwarders as alternatives. Because of the generally higher rate, poor service, and lack of pickup, air parcel post is not considered a viable method for the bulk of the market and therefore has been excluded here.

1. WHILE THE CHARACTERISTICS OF SMALL SHIPMENTS HANDLED BY THE THREE MODES ARE SIMILAR, THE AIRLINES EMPLOY A MUCH DIFFERENT GROUND HANDLING PROCESS FOR AIR EXPRESS

Airline responsibilities are more limited for Air Express shipments than they are for comparable shipments of freight forwarders or their own air freight.

(1) Weight, Density, Number of Pieces, and Distance Traveled Are Generally Similar for Shipments Below 100 Pounds for All Three Modes

The table below shows a comparison of the average shipment under 100 pounds for selected characteristics.

Average Per Shipment Under 100 Pounds	Air Express	Air Freight (Excludes Freight Forwarders)	Freight Forwarders (Shipper Shipments)
Weight (lbs)	20	39	40
Density (lbs/cu. ft.)	8	10	10
Number of pieces	1.4	1.8	2.0
Distance traveled	750	800	800

As can be seen, the average shipments of all three modes are quite similar in terms of density, number of pieces, and distance traveled. Although the total shipment weight for Air Express is generally less than for other modes, the differential does not affect the handling process.

It should be noted that the figures listed under "freight forwarders" are for shipments as received from the shipper and not for a consolidated shipment which the forwarder tenders to the airlines.

(2) Air Freight and Freight Forwarder Shipments Move Through the Air Freight Terminal in a Generally Automated Process

The process for both air freight and freight forwarder shipments follows the same general pattern, including these basic steps:

- Receiving and waybill
- Sorting
- Loading aircraft
- Unloading aircraft
- Breakdown
- Transfer
- Release and/or tracing
- Billing

Particularly in the large freight hubs, which account for more than 70% of all air freight traffic, much of this process is automated. Air freighters, with their automated container loading systems, now account for a significant portion of total air freight and freight forwarder shipments.

(3) By Contrast, Air Express Shipments, Although Handled Manually, Avoid the Air Freight Terminal

In the case of Air Express, the tasks which the airlines perform are relatively simple, including only:

- Pickup from REA
- Aircraft loading and unloading
- Delivery to REA

REA handles all the other tasks including:

- Receiving and waybilling
- Sorting (and routing)
- Consolidating
- Breakdown
- Transfer
- Release and/or tracing
- Billing

Air Express shipments generally move directly from the REA terminal to the aircraft in a manual process. Manual handling is a more appropriate process for Air Express because of the small number of shipments going on any single flight.

2. A DISSIMILAR REVENUE STRUCTURE CAUSES AIRLINES REVENUE PER SHIPMENT TO BE GENERALLY LOWER FOR AIR EXPRESS THAN FOR OTHER MODES

Any single shipment, identical in weight and distance traveled, will generate a different revenue to the airlines, depending on the mode.

(1) The Factors Which Determine Airline Revenue Are Different for Each Mode

Airline revenue from Air Express depends on two factors: the rate schedule and the revenue sharing formula. As discussed in Chapter I, Air Express rates are considerably lower than air freight or even freight forwarder rates at the lower weight levels.

Also, the revenue sharing formula with REA gives the airlines an average at 41% of the total rate.

On an air freight shipment, of course, the airline receives the full amount of the rate paid by the shipper excluding the charge for pickup and delivery. When a shipment is made via freight forwarder, however, the revenue received by the airline is much lower than if it were air freight, because the forwarder typically will consolidate shipments to take advantage of a lower rate from the airline. For example, while an individual forwarder shipment is 30 pounds, the forwarder typically will consolidate it with others to over 100 pounds, and pay the 100-pound rate. Thus the airline revenue from that individual shipment is, in effect, 30 pounds at the 100-pound rate per pound.

(2) Air Express Generates a Relatively Low Revenue Per Shipment

The revenue to the airlines generated by each of the three modes for shipments of various weights moving 1,100 miles (an average of domestic freight distances) is illustrated in Exhibit II, following this page. Because of the factors discussed above, Air Express has a much lower revenue per shipment than does air freight. However, its revenue is somewhat higher than

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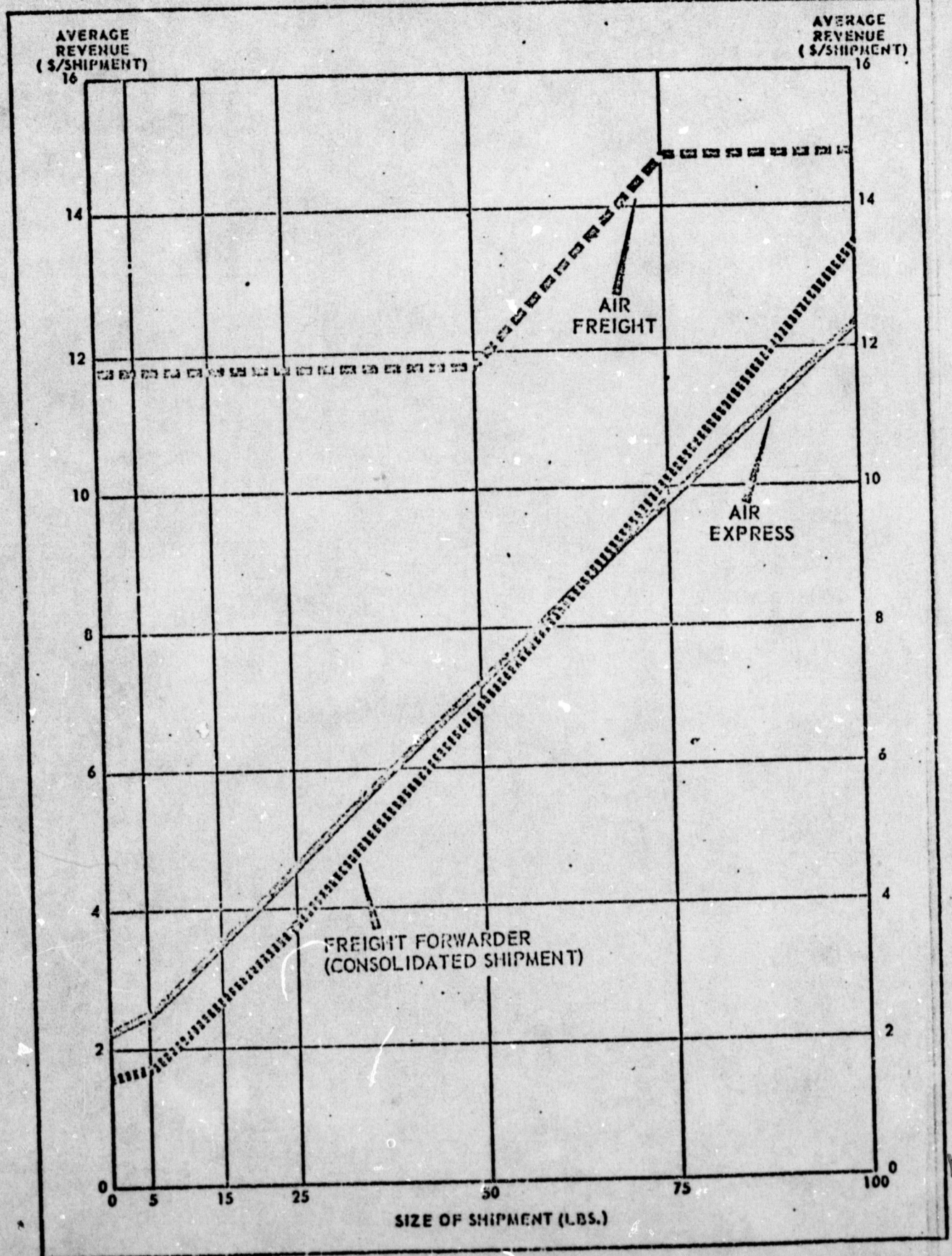
AIRLINE REVENUE COMPARISON*



*Air Express Revenue Accruing to Airlines for an Average 1,100-Mile Shipment.

the revenue that would be generated if the identical shipment were to go via freight forwarder, because the latter shipment is typically consolidated and moves at the 100-pound rate. Appendix B presents this in greater detail.

3. AIRLINE GROUND COSTS PER SMALL SHIPMENT ARE LOWER FOR AIR EXPRESS THAN FOR OTHER MODES

Costs, like revenue, vary by mode for any given shipments of specific weight and length of haul. For purposes of this study, only relative ground costs have been considered, inasmuch as the line haul costs are presumed to be essentially the same for all three modes, since shipment characteristics are so similar.

(1) Ground Costs Are Divided Into Three Categories and Vary by Mode

The major categories of ground costs are:

- Shipment processing costs, covering all directly related paperwork
- Physical handling costs, covering the direct handling of the packages
- Ground burden costs, covering all overhead expenses and claims

Shipment processing costs relate directly to the number of shipments that are essentially independent of any other factor. Physical handling costs depend primarily on the number of pieces

handled, particularly since the average weight per piece does not vary significantly among modes; e.g., the average weight per piece for a 300-pound air freight shipment is 35 pounds, while the average Air Express piece weighs 18 pounds. Ground burden costs have been allocated on the basis of shipments. While it would be feasible to allocate these costs on another basis, such as weight or revenue, the overall conclusions reached are not affected.

(2) <u>There Are Practically No Shipment Processing Costs With Air Express</u>

All paperwork relating to Air Express shipments is the responsibility of REA, except in cases where REA does not maintain airport facilities. This paperwork includes airbill preparation, invoicing and billing, lot labelling, and calculation of individual airline revenue shares and tracing.

If the shipment were to be shipped via freight forwarder instead of air freight, shipment processing cost to the airline would be lower than air freight (but, of course, higher than the nonexistent Air Express cost) because of consolidation. Since this one freight forwarder shipment will be consolidated with others into one airline shipment, each shipper shipment

is allocated only a portion of the shipment processing cost for one consolidated shipment. Furthermore, since waybill preparation and lot labelling are normally done by the forwarder, the cost of a single shipment is somewhat lower than air freight. It should be noted, however, that certain extra services are provided to forwarders by the airlines. The cost of these added tasks is not directly reflected in the cost categories for freight forwarders because no satisfactory estimates were available. However, these costs, in relation to total costs included, were not deemed to be significant in most cases.

(3) Ground Burden Costs Are Much Lower For Air Express Than for Other Modes

The bulk of the ground burden costs is related directly to rent, utilities, and upkeep of the terminal building; the maintenance and depreciation of freight handling equipment; and advertising and sales costs. Since Air Express shipments do not utilize the terminal, the only burden costs properly allocated to Air Express include maintenance and depreciation of equipment used for Air Express and its share of corporate overhead. Again, if the shipment goes via freight forwarder, ground burden costs are lower than for air freight because of consolidation, but higher than for Air Express.

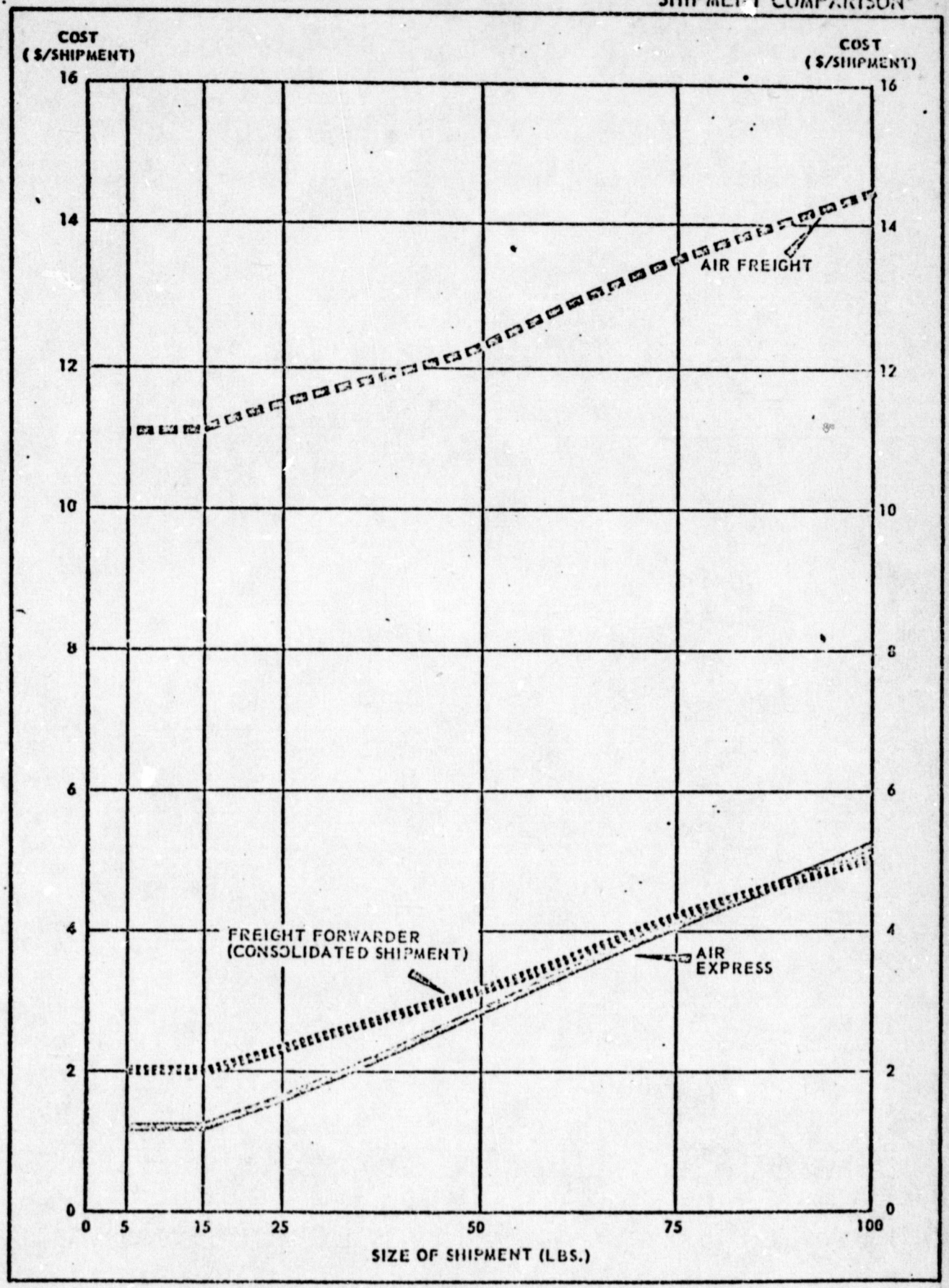
(4) Actual Physical Handling Costs Are Somewhat Higher for Air Express Than for Other Modes

The relatively low volume of Air Express shipments to any single flight prevents any important economies of scale in physical handling. For example, there is little chance to automate the process and to level out work loads. As a result the physical handling cost per piece is slightly higher for Air Express than for air freight or freight forwarder shipments.

(5) Below 75 Pounds Air Express Has the Lowest Ground Cost Per Shipment

Exhibit III, following this page, shows a comparison of the total ground costs for shipments up to 100 pounds traveling an average 1,100 miles. As can be seen from this exhibit, Air Express has the lowest cost and both freight forwarder and Air Express costs are significantly below those of air freight. The same basic relationship holds at other distances, although the differential narrows beyond 1,000 miles. Appendix C discusses this subject in greater detail.

AIRLINE GROUND COST PER SHIPMENT COMPARISON*



*Total Ground Cost to Airlines for a Shipment Traveling 1,100 Miles.

4. AIR EXPRESS IS THE MOST ADVANTAGEOUS WAY FOR THE AIRLINES TO HANDLE SHIPMENTS UNDER 75 POUNDS

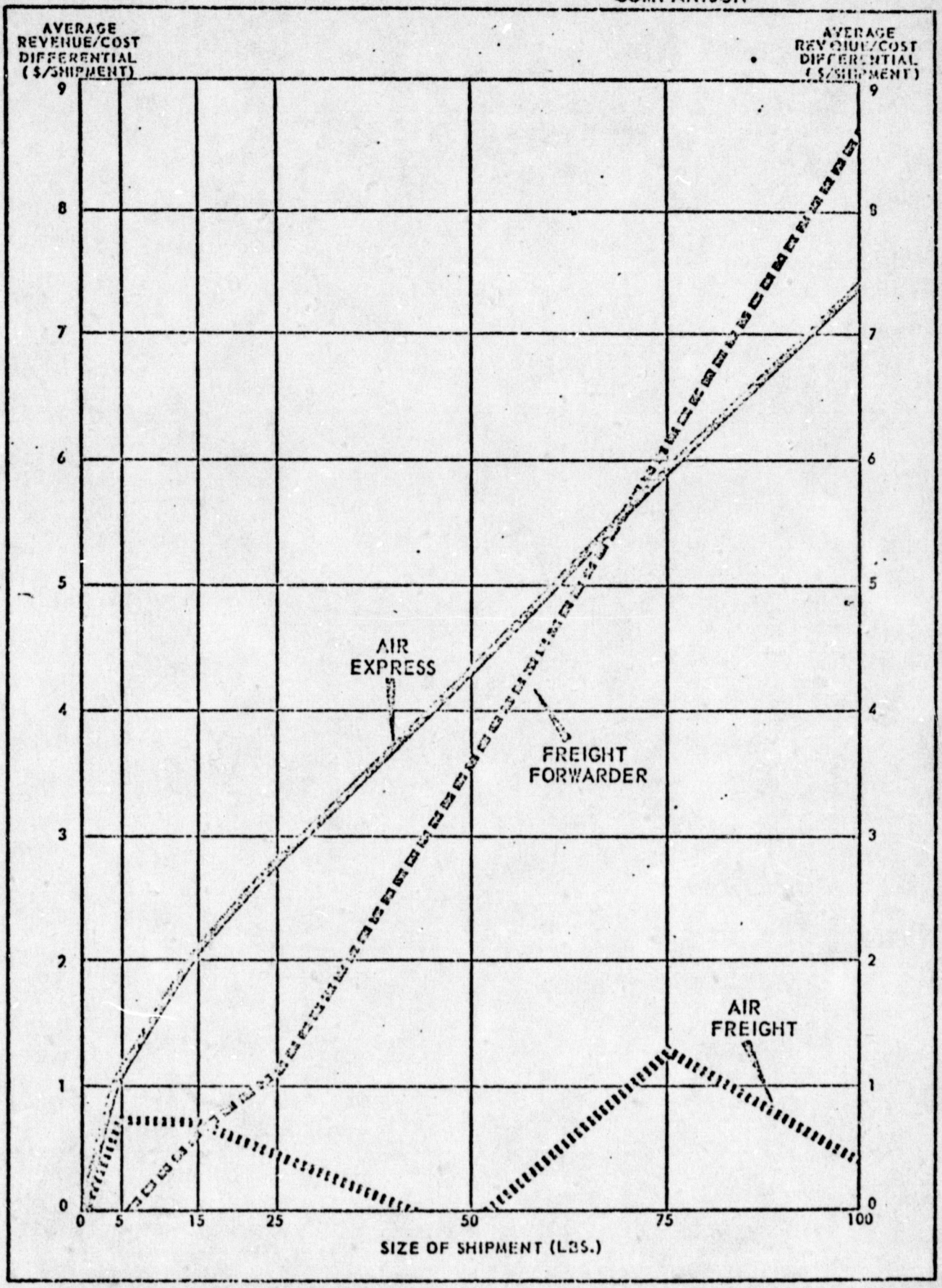
For purposes of determining the relative advantages of handling a shipment via each of the three modes, the key determinant is the differential between airline revenue and airline ground cost for any given shipment. It should be noted that no line haul costs have been included in any calculations. Since the characteristics of shipments by all three modes are similar, even in package density, line haul costs are nearly identical and therefore have been eliminated.

(1) Air Express Creates the Most Favorable Differential Between Ground Costs and Revenue

Ground costs related to a particular shipment have been subtracted from the revenue generated from that same shipment. Exhibit IV, following this page, illustrates the results for a typical distance of 1,100 miles. It shows that for this particular distance Air Express has the greatest revenue/ground cost differential, up to nearly 75 pounds. At the lowest weight levels, the magnitude of the differential is significant. At 25 pounds Air Express generates a differential of about $2.75 per shipment, the freight forwarder $1.10, and air freight $0.50. When multiplied by millions of shipments involved, changes in the current air cargo mix can have a significant effect on profits.

AIR EXPRESS COMMITTEE

AIRLINE REVENUE/GROUND COST DIFFERENTIAL COMPARISON*



*Difference Between Airline Revenue and Airline Ground Cost for Shipment Traveling 1,100 Miles.

These differentials, while illustrated for a distance of 1,100 miles, are in varying degrees applicable for all distances up to 2,500 miles. Below 1,100 miles the crossover point between Air Express and freight forwarder mode is higher than 75 pounds, while for distances beyond 1,100 miles the crossover point is lower than 75 pounds. See Appendix D for greater detail.

(2) The Small Shipments Which Can Be Expected To Be Diverted From Air Freight as a Result of the Eastern Airlines Tariff Increase Would Be Most Advantageously Handled by Air Express

The Eastern Airlines tariff increase, if matched by other airlines, will raise the tariff on most shipments below 50 pounds from $6 to $10, or 67%. Given the price sensitivity of this market, an increase of this magnitude is expected to divert from 1.5 to 2.0 million shipments (of the total 3.4 million air freight shipments below 50 pounds) to another air mode, assuming no significant increase in rates of the other two modes.

If these shipments were diverted to Air Express and the free terminal capacity were then made available for increases in the volume of larger, more profitable shipments, the total revenue/ground cost differential would be increased significantly. For example, at the present time the total estimated revenue/ground cost differential (number of shipments times the revenue/ground cost differential per shipment) for Air Express and air

freight combined equals $57.0 million. If 2 million air freight shipments were diverted to Air Express and 500,000 heavier, more profitable shipments were added to air freight, the total revenue/ground cost differential would equal $65.3 million, or an increase of nearly 15%.

(3) Diversion of Air Freight Small Shipments to Freight Forwarders Will Have a Negative Effect on Profits

If a shipment now going by air freight were diverted to a freight forwarder, revenue would decline as a result of consolidation. At the same time, costs would decline because of consolidation. However, revenues would decline more than costs, resulting in a negative impact on profits. For example, if the same 2 million shipments were diverted from air freight to freight forwarders, the total revenue/ground cost differential would drop from $57.0 million to $56.0 million. Since the shipments would still be processed through the air freight terminal, no new terminal capacity would be available.

(4) Diversion of Small Shipments to Air Express Provides the Opportunity To Make More Efficient Use of Fixed Facilities

Nearly half of all shipments now handled by air freight are below 75 pounds. By reducing the number of small shipments, the airlines could concentrate on larger, heavier, and more

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profitable shipments. This, in turn, should permit greater automation of terminals and processing systems as a result of specialization in a particular category of shipments.

Furthermore, a shift of traffic to Air Express should tend to equalize the utilization of aircraft. At the present time, most airlines are experiencing lower load factors in belly-pits than in the upper levels of all-cargo aircraft. Since the bulk of Air Express rides in belly-pits, diversion of small shipments from air freight to Air Express should result in somewhat more uniform load factors. This balancing of the loads should in turn permit greater utilization of the total combination and all-cargo fleet.

* * * *

In summary, Air Express is the most desirable way for the airlines to serve the small shipment market up to 75 pounds. In providing the greatest revenue/ground cost differential and permitting greater efficiency from existing facilities and equipment, Air Express is the most economical means of handling the small shipment. Importantly, it is also the best way to serve the shipper need as discussed in Chapter I. Thus it is in the interest of both the airlines and the shipping public to continue and, in fact, to expand and improve the Air Express Service.

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III. REA AND ALTERNATIVE AGENCIES TO PROVIDE AIR EXPRESS SERVICES

This chapter explores the viability of REA and considers REA in comparison with other agencies that might provide the necessary ground services for Air Express. In general, economic factors are most critical to the conclusions.

1. ALTERNATIVES TO REA SHOULD BE IN A RELATED FREIGHT BUSINESS, WHICH IS A LIMITING FACTOR

The ability to execute the ground services of Air Express demands several assets, the most important of which is an existing freight handling business.

(1) A Viable Air Express Service Requires Spreading High Fixed Costs Over a Much Broader Base Than Air Express Alone Can Provide

A significant investment in fixed facilities is required. At the present time, REA has facilities at over 100 airports and more than 1,000 vehicles devoted exclusively to Air Express. In addition, surface express facilities and equipment are used in major markets as consolidation and breakdown points for pickup and delivery. In minor markets, surface express facilities and equipment are used in lieu of separate Air Express facilities for

nearly all handling operations. Current REA Air Express facilities and equipment represent a gross investment of about $20 million, while the surface express investment exceeds $125 million. These costs are reflected in the high proportion of fixed costs to variable costs in the Air Express operation--it is estimated that relatively fixed costs account for 55% to 65% of total cost as compared to 35% to 45% for strictly variable costs.

It is not possible for the Air Express business alone to absorb the full cost of all necessary facilities and equipment required to operate Air Express in its present form. While some investment at major airports can be justified by the volume from these markets, the investment required in smaller markets cannot. Even at the present time, more than half of REA's Air Express facilities generate less than 15% of Air Express revenue and, therefore, are probably operated at a loss.

(2) Other Elements Essential To Provide the Necessary Level of Service Also Require a High Volume of Business

In addition to the investment in handling facilities and equipment, the operating entity must also develop and maintain several operating "systems."

- Documentation and accounting system
- Tracing system
- Sales organization

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If not already established, each of these operating systems would require an investment in development and data processing equipment. Furthermore, the operating costs of these systems, while more variable than fixed facilities, nonetheless would be very high if spread over Air Express volume alone.

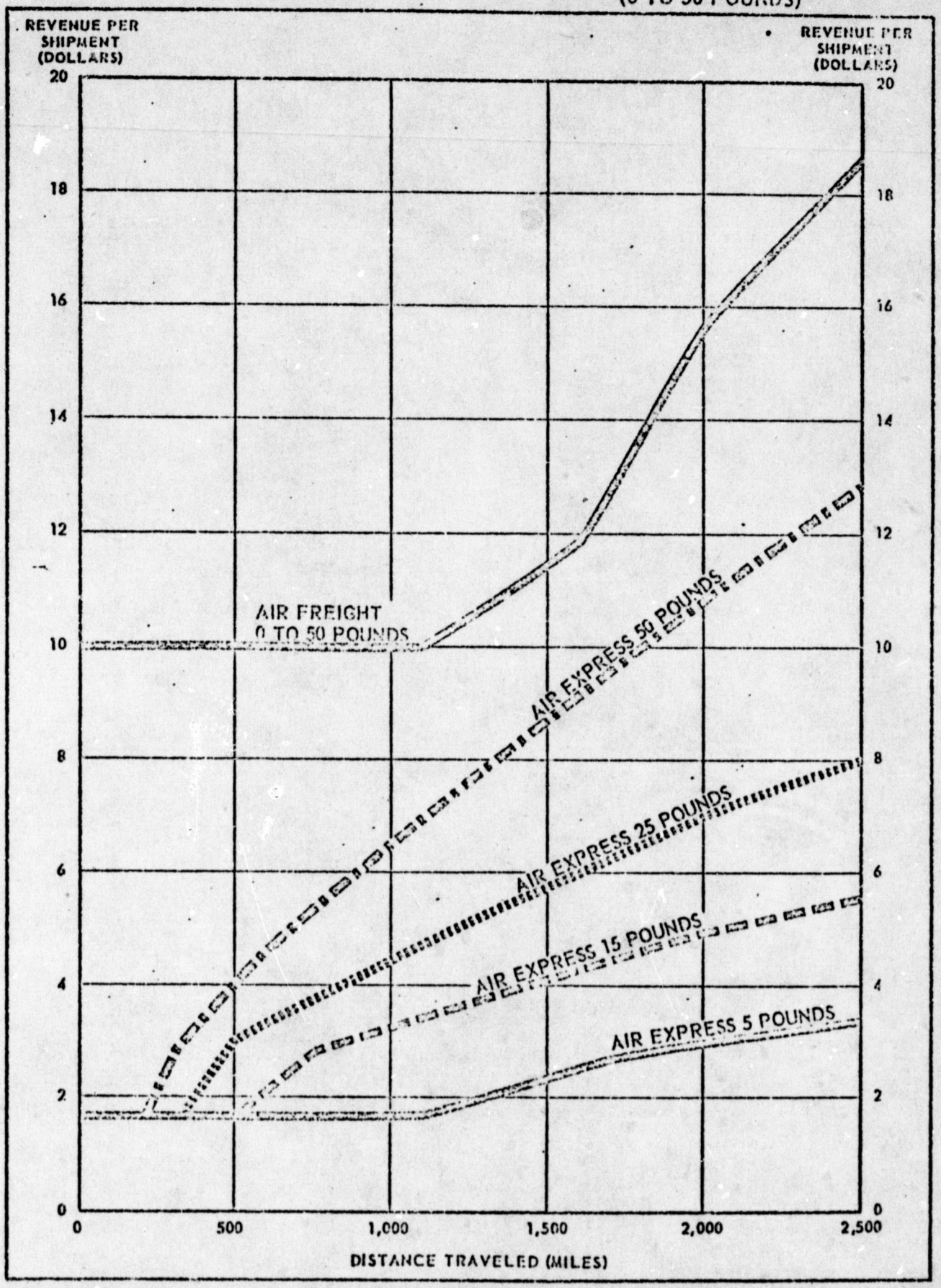
COMPARISON OF AIRLINE REVENUE PER SHIPMENT BY MODE

The purpose of this appendix is to detail the various revenue relationships of the different modes and to indicate the effect of changes in these revenue relationships. In order to measure the impact of revenue and costs, it was necessary to look at revenue in the same manner as ground costs. Therefore, the basic revenue relationships were developed on a per shipment basis for varying size shipments going varying distances. This appendix covers the calculation of airline revenue by modes and also the effect of changes in the airline/Air Express revenue share.

1. AIRLINE REVENUE FROM AIR CARGO

Air Express revenue to the airlines is generated on the basis of an agreement with REA and is a function of the rate charged to the shipper. The airline agreement with REA netted the airlines a 41% share of Air Express gross revenue in 1967. Exhibit B-I, following this page, compares the airline revenue per shipment of Air Express to air freight for shipments up to 50 pounds moving different distances. It can be seen that revenue from the Air Express mode is 65% lower than air freight for a 25-pound shipment going 750 miles (the average length of haul for an Air Express shipment) and 45% lower than air freight for a 50-pound shipment going the same distance.

REVENUE PER SHIPMENT TO THE AIRLINES (0 TO 50 POUNDS)



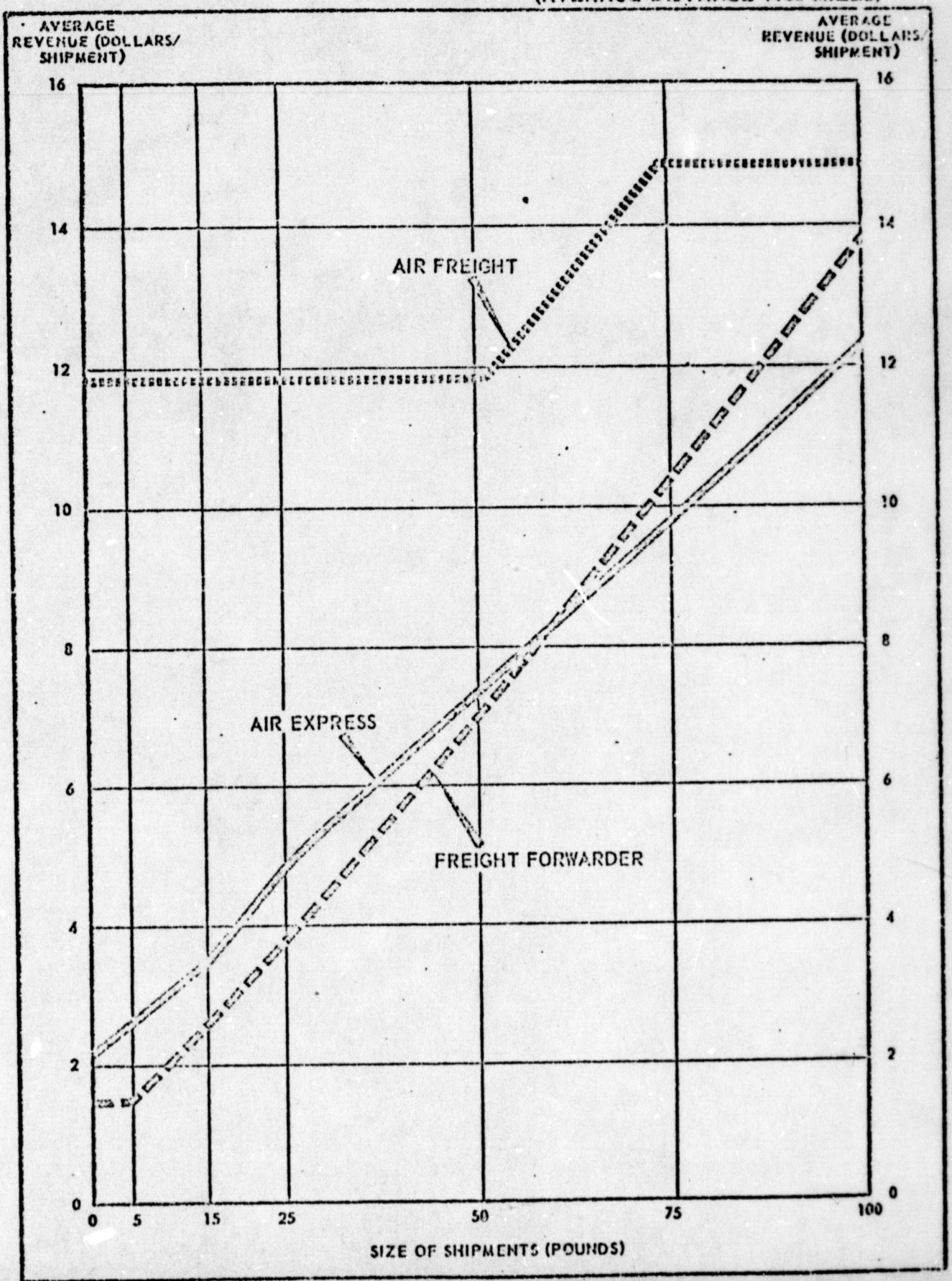
The airline revenue derived from air freight represents the line-haul rate to the shipper, excluding any pickup and delivery charges. On most small shipments under 50 pounds, this represents the minimum rate of $10.00 per shipment. Air freight forwarder revenue to the airlines also represents the line-haul rate charged to the freight forwarder for consolidated shipments. Since most of the freight forwarder shipments to the airlines are consolidated over 100 pounds, individual shipments typically move at the 100-pound rate. In order to present a meaningful comparison of similar size shipments, the revenue for a comparable freight forwarder shipment was developed by dividing the total revenue of a consolidated shipment by the average number of consolidations. In effect, this generated the average revenue of a single shipment consolidated with other shipments to over 100 pounds and in most instances represents the 100-pound rate per pound.

Exhibit B-II, following this page, and shown in the report, compares the revenue generated by identical shipments under the three different modes. As can be seen, at a shipment weight of about 65 pounds the freight forwarder mode starts to generate a greater revenue per shipment than Air Express. For comparison purposes a length of haul of 1,100 miles has been used; below that distance Air Express has a higher revenue than the freight forwarder mode for weights over 65 pounds, while beyond 1,100 miles the reverse is true.

EXHIBIT B-II

AIR ..XPRESS COMMITTEE

AIRLINE REVENUE PER SHIPMENT BY MODE
(AVERAGE DISTANCE 1100 MILES)



APPENDIX C

ANALYSIS OF AIRLINE AIR CARGO GROUND COSTS

The comparative analysis of costs of handling Air Express, cargo from an air freight forwarder, and shipments by airlines air freight required the development of ground handling and processing costs. This appendix describes the costing concepts and the detailed analyses used as a basis for conclusions and recommendations regarding Air Express from the airline point of view (Chapter II).

1. APPLICATION OF GROUND COSTS

Ground costs were defined for this report to include costs associated with air cargo except expenses for the operation and maintenance of the aircraft. Although Air Express is 15% to 20% less dense than other air cargo and moves primarily in the belly-pit compartments of combination aircraft, a brief analysis of the resulting impact on subsequent revenue/cost comparisons indicated that these two factors were not significant for the purpose of this study. Furthermore, the major thrust of this study was a comparison of cargo handling for similar size shipments via different air modes. Thus, since the line haul and aircraft maintenance costs are roughly the same for all three modes, and since non-air modes were not considered, line haul and aircraft maintenance costs have not been included.

2. SOURCES OF COST DATA

Ground cost data were developed from 1967 annual system expense levels of four major airlines, as submitted to the CAB in relation to the non-priority mail rates docket #10381. These non-priority mail rates docket data were further refined through the use of:

- Individual airline cost studies
- Interviews with the respective airlines
- Independent cost surveys
- Freight terminal observations
- American and Eastern Airlines' recent submissions to the CAB on rate changes on minimum shipments
- Individual airline statistics for piece and shipment volume

3. COMPOSITION OF GROUND COSTS

Ground costs were developed in the following three expense categories:

- Handling costs
- Shipment processing costs
- Ground burden costs

Handling costs represent the expenses incurred in physically moving a shipment through the freight facility. Loading and unloading of the

shipment were also considered to be handling functions. These handling costs were allocated over the total number of pieces handled. This allocation was based on the average number of pieces per shipment multiplied by the cost per piece. This analysis was conducted on a per shipments-handled basis for Air Express, air freight forwarder, and air freight shipments, respectively. Exhibit C-I, following this page, details the principal functions included in handling costs for each of the modes.

Figures were also developed for shipment processing costs for each type of shipment. These costs were related directly to shipments rather than pieces. Exhibit C-II, following Exhibit C-I, details the principal functions performed by the airlines in shipment processing for Air Express, air freight forwarder, and air freight shipments.

Ground burden costs were developed to include expenses such as terminal rent and utilities, other terminal overhead costs, corporate overhead, advertising and sales, ground equipment maintenance, and non-aircraft related depreciation. As with ground handling and shipment processing costs, the ground burden costs were developed for each mode of handling small shipments. These cost elements are shown in Exhibit C-III, following Exhibit C-II.

Air Express Committee

HANDLING FUNCTIONS

Air Express	Air Freight	Freight Forwarder
• Pickup of shipment from REA facility by flight	• Receipt of shipment at dock	• Receipt of shipment at dock
• Loading onto aircraft	• Lot labelling	• Sorting of shipments by flight
• Unloading of shipments	• Sorting of shipments by flight	• Consolidating of shipments into igloos or carts
• Dispatch to REA facility	• Consolidating of shipments into igloos or carts	• Loading onto aircraft
	• Loading onto aircraft	• Unloading of shipment
	• Unloading of shipments	• Breakdown of shipment
	• Breakdown of shipment	• Transfer of shipments
	• Transfer of shipments	• Storage of shipments
	• Storage of shipments	• Movement of shipments to dock for pickup
	• Arrange for delivery	
	• Movement of shipment to dock for pickup	

EXHIBIT C-II

371(a)

Air Express Committee

SHIPMENT PROCESSING FUNCTIONS

Air Express	Air Freight	Freight Forwarder
No functions	. Preparation of airbill at terminal	. Checking of airbills at dock
	. Lot labeling of shipments	. Rating of airbills
	. Internal accounting for airbills	. Internal accounting for airbills
	. Invoicing of airbills	. Invoicing of airbills
	. Matching of airbills to shipments	. Matching of airbills to shipments

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EXHIBIT C-III

Air Express Committee

GROUND BURDEN COST ELEMENTS

Air Express	Air Freight	Freight Forwarded
• Terminal supervision	• Terminal supervision	• Terminal supervision
• Terminal overhead - Ramp rentals	• Terminal overhead - Rent and utilities - Damages and injuries - Supplies	• Terminal overhead - Rent and utilities - Damages and injuries - Supplies
• Corporate overhead - General administrative	• Corporate overhead - General administrative	• Corporate overhead - General administrative
• Ground equipment and maintenance	• Ground equipment and maintenance	• Ground equipment and maintenance
	• Advertising and publicity	• Advertising and publicity
	• Reservation and sales	• Reservation and sales

BOOK ALL

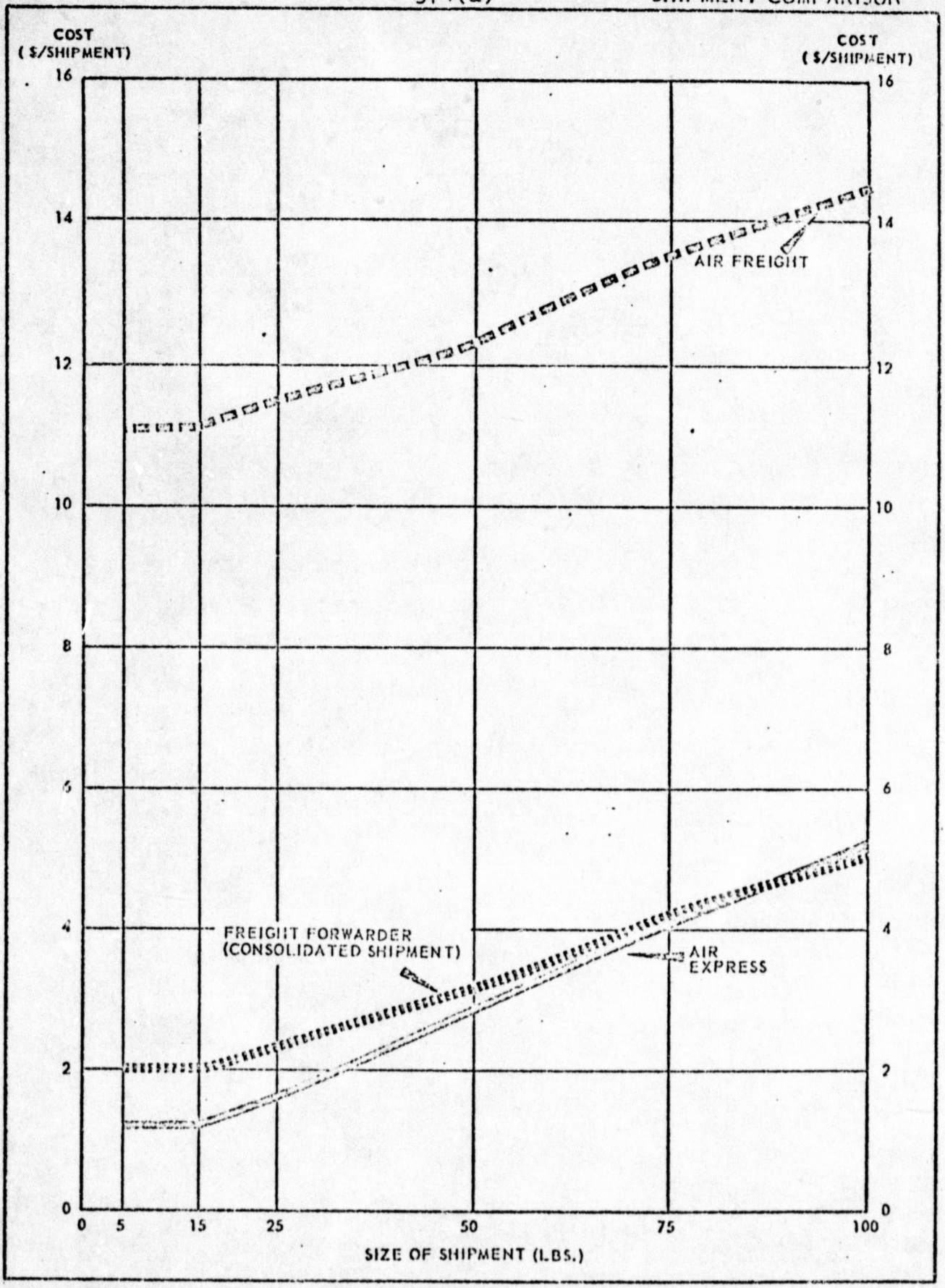
4. COST PER SHIPMENT TO THE AIRLINES

Exhibit C-IV, following this page, compares the ground cost of a single shipper shipment of a specific weight going an average distance of 1,100 miles. In the case of Air Express and the air freight mode, the ground cost was the sum of the physical handling costs, the shipment processing cost, and the gound burden costs for that particular single shipment. For the freight forwarder mode, an additional calculation was necessary because more than 95% of the individual shipper shipments handled by freight forwarders are consolidated with an average of 6 other shipments. As a result, the shipment processing costs were divided by 7 to allocate these cost to a single shipper shipment. For example, a single 25-pound shipment is picked up by the forwarder, consolidated with 6 other 25-pound shipments, and tendered to the airlines as a single 175-pound shipment. The total shipment processing cost of this 175-pound shipment was calculated and one-seventh of the total was allocated as the shipment processing cost for a 25-pound shipper shipment handled by a freight forwarder.

Calculations of ground costs for each of the three modes were made separately based upon data provided by each of the four airlines studied. These costs were compared and found to be reasonably similar among the airlines.

SCOTT-ALL

AIRLINE GROUND COST PER SHIPMENT COMPARISON*



*Total Ground Cost to Airlines for a Shipment Traveling 1,100 Miles.

Exhibit C-IV compares the ground cost for shipment among the modes for different size shipments. As indicated in the exhibit, Air Express costs are substantially below air freight costs on shipments under 100 pounds. Similarily, Air Express costs per shipment are less than comparable costs for consolidated freight forwarder shipments up to about 85 pounds. Further, it can be seen that the cost per freight forwarder shipment is substantially less than a comparable air freight shipment.

5. CONTENT OF GROUND COST COMPARED BY MODE

A significant part of air freight ground cost is related to processing and burden. Thus, as the size of an air freight shipment increases, the total ground costs increase slower than the same costs for an Air Express shipment, and the shipment-related costs or "fixed" costs become less significant.

Shipment handling costs represent the most significant element of expense for Air Express. This handling cost varies directly with the number of pieces in an Air Express shipment. As the size of the Air Express shipment increases and along with it the number of pieces, the total ground costs increase proportionately and gradually approach the total cost of air freight. Exhibit C-V, following this page, shows the composition of ground costs for the three modes for average shipments below 50 pounds and 50 to 100 pounds.

EXHIBIT C-V

Air Express Committee

COMPOSITION OF GROUND COSTS

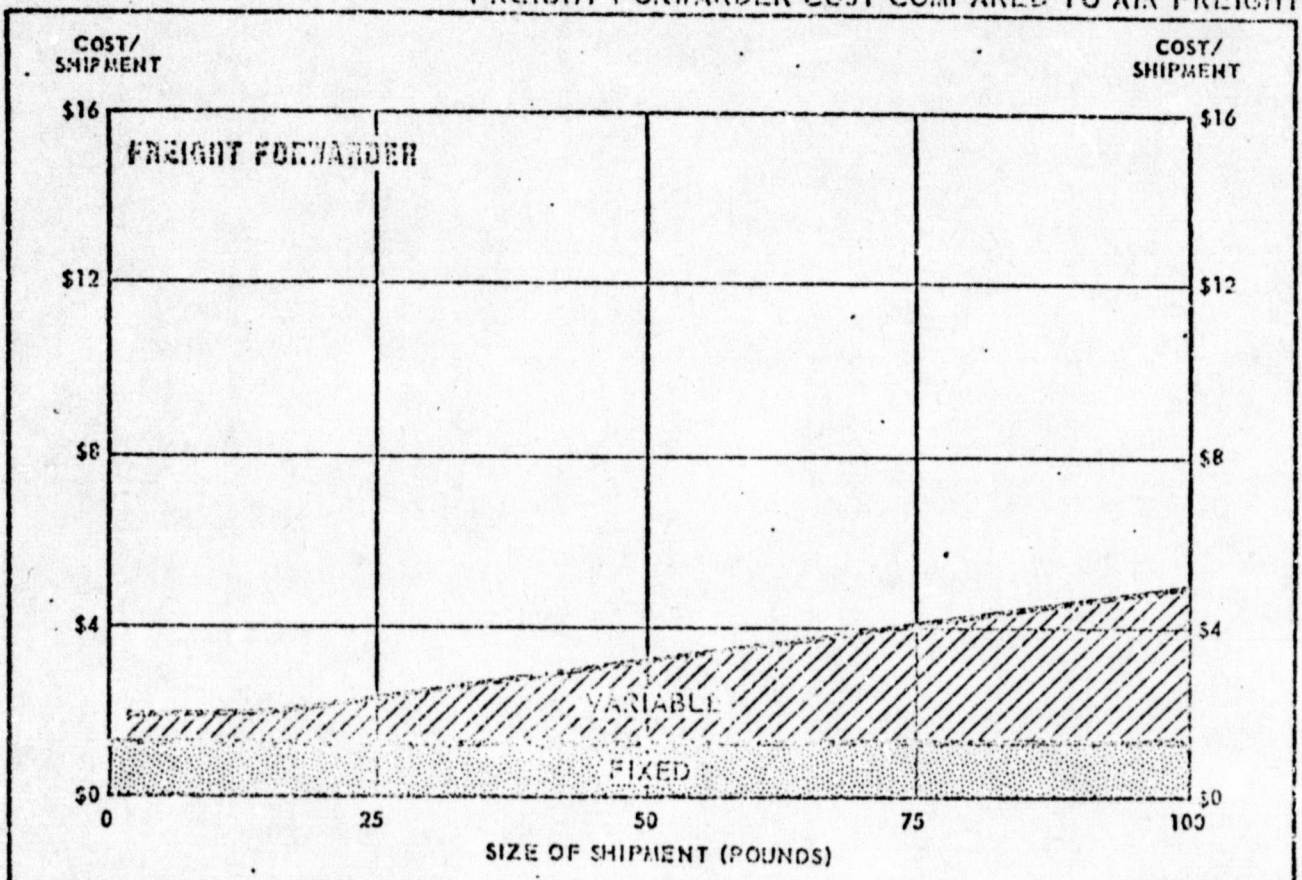
	Average Shipment Below 50 Pounds			Average Shipment at 50 Pounds to 100 Pounds		
	Air Freight	Freight Forwarder	Air Express	Air Freight	Freight Forwarder	Air Express
Handling cost	$ 1.13	$1.07	$1.32	$ 2.63	$2.49	$3.08
Shipment processing cost	3.70	0.37	-	3.70	0.32	-
Ground burden cost	6.70	0.91	0.40	6.70	0.91	0.40
Total	$11.53	$2.35	$1.72	$13.03	$3.72	$3.48

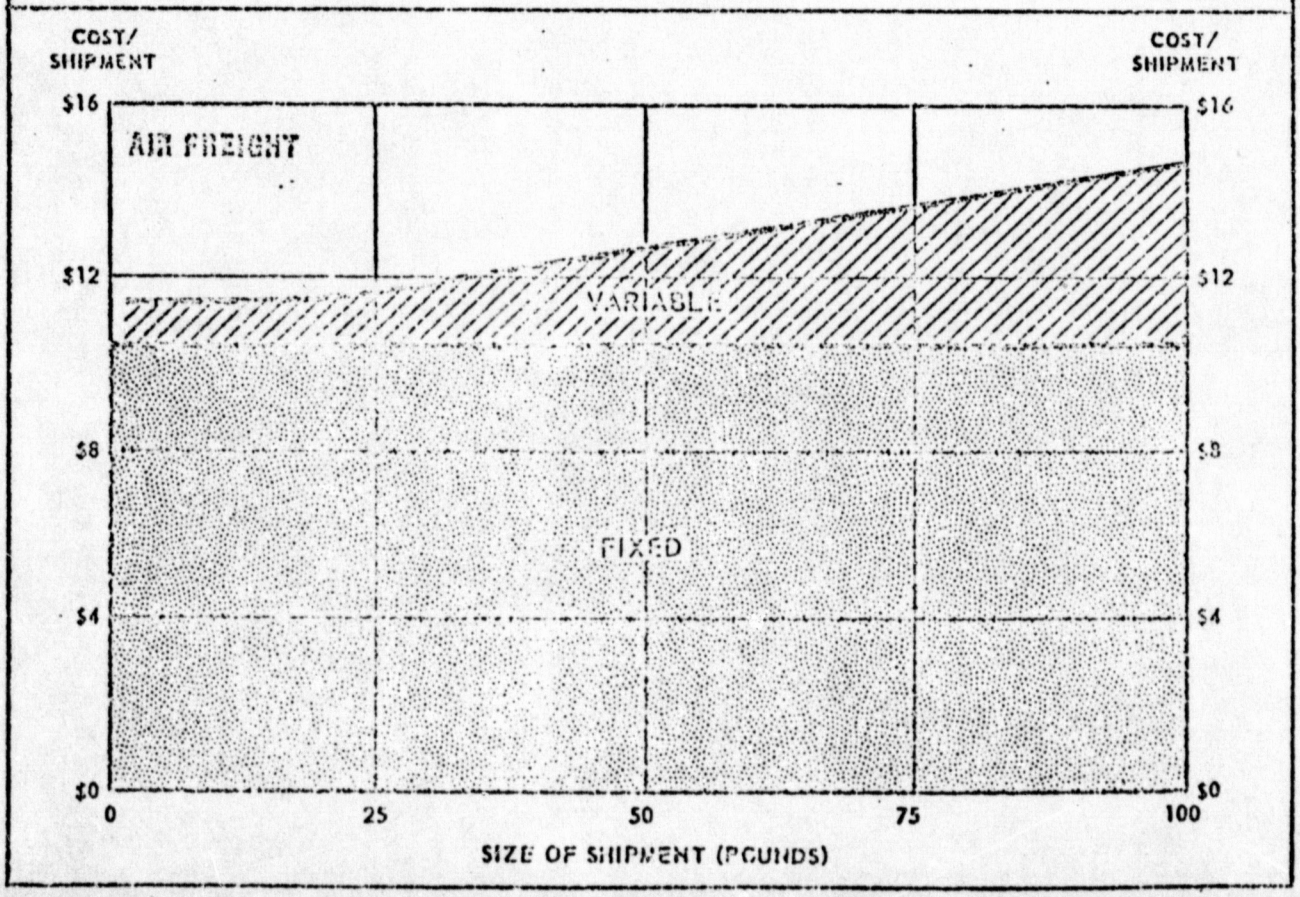
A comparison of airline ground cost between air freight forwarder shipments and air freight shipments is included in Exhibit C-VI, following this page. While the same basic process is followed by the airlines for both modes, the shipment-related costs are much lower for the freight forwarder mode because of consolidation.

EXHIBIT C-VI

AIR EXPRESS COMMITTEE

FREIGHT FORWARDER COST COMPARED TO AIR FREIGHT





COMPARISON OF AIRLINE REVENUE/GROUND COST DIFFERENTIALS BY MODE

This appendix defines the airline revenue/ground cost differentials by mode in greater detail. It covers the methodology used in calculating the differentials as well as the effect of the rate changes recommended in Chapter IV on the Air Express differential.

1. CALCULATION OF REVENUE/GROUND COST DIFFERENTIALS

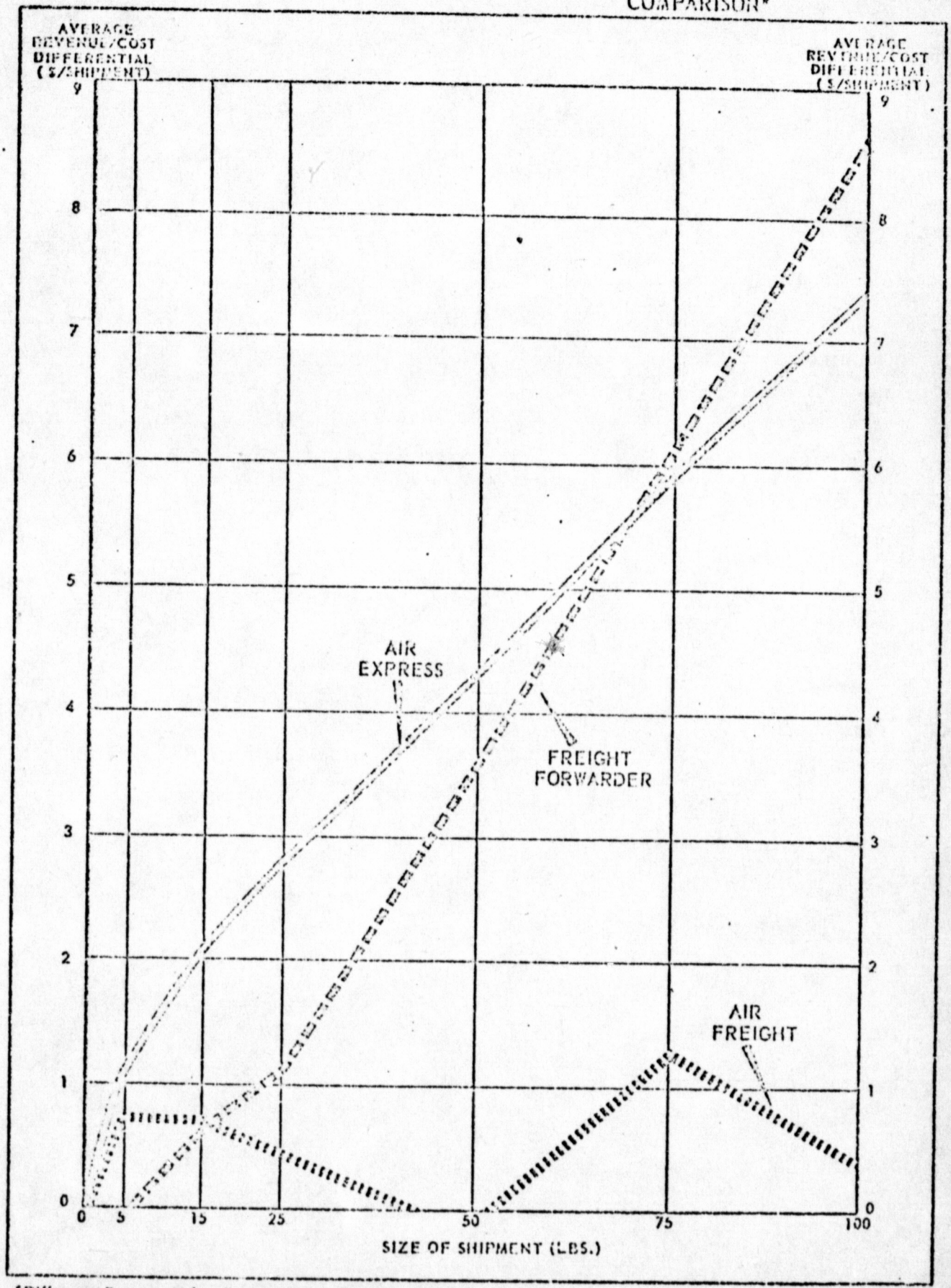
The airline revenue/ground cost differential is the airline revenue (Appendix B) less the airline ground costs (Appendix C) for any shipment of a given weight and length of haul. Exhibit D-I, following this page (and repeated as Exhibit 4 in Chapter II), compares the differentials among the three modes for shipment weights up to 100 pounds with a length of haul of 1,100 miles. As can be seen, Air Express generates the highest revenue/ground cost differential up to nearly 75 pounds.

Exhibits D-II through D-V, following this page, show the differentials for shipments at 5, 25, 50, and 75 pounds, respectively. For a 5-pound shipment Air Express provides the most economical means for the airlines to handle shipments moving distance up to 1,650 miles. For distances over 1,650 miles air freight is the best mode. For 25-pound shipments, Air Express is the best mode for up to almost 2,200 miles. For 50-pound shipments, Air Express is the best mode

for all distances over 250 miles. On the shorter distances, air freight forwarders have a slight advantage. It should be noted that the Air Express advantage decreases significantly from 25 to 50 pounds and becomes much closer to that of freight forwarders. Air Express has only a slight advantage for 75-pound shipments going between 400 and 800 miles. At this point the relationship becomes quite sensitive to changes in the basic variables.

AIR EXPRESS COMMITTEE

AIRLINE REVENUE/GROUND COST DIFFERENTIAL COMPARISON*



*Difference Between Airline Revenue and Airline Ground Cost for Shipment Traveling 1,109 Miles.

382(a)

NOTICE DATED NOVEMBER 2, 1971

CIVIL AERONAUTICS BOARD

WASHINGTON, D.C. 20428

INVESTIGATION OF AIR EXPRESS RATES

DOCKET 22387

NOTICE TO ALL PARTIES:

On October 20, 1971 REA Express, Inc. (REA) filed a motion to include in the record of this proceeding portions of a report on air express prepared for the Air Express Committee by a firm of management consultants.

The participating carriers and the Air Freight Forwarders Association (AFFA) have filed answers opposing REA's motion. The Bureau of Economics (Bureau) has also filed an answer which is not opposed to the receipt in evidence of those portions of the report relating only to ground costs.

The above motion will be denied for essentially the same reasons given in the examiner's notice to the parties dated October 13, 1971 which disposed of REA's motion to include in the instant record a United Airlines, Inc. exhibit submitted in Docket 23080. Again, the opposition of the participating carriers and AFFA to REA's motion prevents acceptance of the proffered document for this record (Rule 24(j) of the Board's Rules of Practice). Similarly, there is no justification for reopening the hearing to consider the report. It relates to a period prior to the one at issue here, and to data limited to only four of the score of participating airlines. At the same time, of course, it is cumulative of the exhibits already in the record on the issues for which it is offered. Under the circumstances, further proceedings would be wasteful and contrary to orderly procedure.

Upon consideration of the foregoing, REA's motion and the answers thereto, the motion of REA to include the above report in the record of this case is hereby denied.

Milton H. Shapiro
Hearing Examiner

November 2, 1971

Before the
CIVIL AERONAUTICS BOARD
Washington, D.C.

Investigation of Air Express Rates	Docket 22387

MOTION OF REA EXPRESS TO INCLUDE EXCERPTS FROM EXPRESS SERVICE INVESTIGATION TRANSCRIPT IN THE RECORD IN THIS PROCEEDING

REA Express, Inc. moves that the attached portions of the record in Docket 22388, Express Service Investigation be included in the record in this proceeding.

The Express Service Investigation was heard after the close of the record in the instant proceeding; consequently extracts from that record were not available for inclusion herein.

The extracts which REA seeks to make a part of the record herein bear directly on the comparative costs of Express and Freight which constitutes one of the major factual issues in the instant proceeding.

The extracts are characterized by these features with respect to #22388 and the instant case.

1) The same witness appeared in each case.
2) The witness appeared for the participating airlines in each case.
3) The testimony is based on the same studies in each case.

For the first time Extract 1 admits that Express costs are lower than minimum air freight shipment costs. Hence the Extract is not cumulative of evidence already in the instant record.

Similarly, Extract 2 is a clear admission that the airlines lose money on freight and see no hope of converting freight into a profitable operation and that freight will have to be costed on a by-product basis.

REA urges that the extract be made part of the record and that they be considered by the Examiner. Since all parties in the instant case are parties to the Service Case, it seems unnecessary to reopen the record herein; but REA would not object to such reopening if the Examiner deems it appropriate.

REA respectfully requests that the Examiner include the attached extracts in the record herein and consider them in reaching his decision.

Respectfully submitted,

John J. C. Martin

John J. C. Martin
Assistant General Counsel and
Director of Economic Regulation
REA Express, Inc.
219 East 42nd Street
New York, New York 10017

Attachments

Of Counsel:

Elroy H. Wolff
Leibman, Williams, Bennett
Baird and Minow
1156 Fifteenth Street, N.W.
Washington, D.C. 20005

December 2, 1971

CERTIFICATE OF MAILING

This is to certify that on December 2, 1971 I caused the foregoing document to be served by first-class mail (air-mail west of the Mississippi River) upon all parties of record in CAB Docket 22387.

John J. C. Martin

EXTRACT FROM TRANSCRIPT, DOCKET 22388, EXPRESS SERVICE INVESTIGATION

EXTRACT 1

WITNESS: Mr. Eichner

QUESTIONS: Mr. Bernhard

BY MR. BERNHARD

Q. Mr. Eichner, in the direct exhibits of the participating airlines, Exhibits PA-402 through 408, is it correct that these exhibits were taken from the rate case?

A. Yes

Q. These exhibits purport to show the air express costs of the airlines, in that correct?

A. That is correct.

Q. Now, we have already stated on behalf of the airlines that it is not our intent to pursue cost and pricing issues that were raised in the investigation, the

rate case, in this investigation proceeding.

Therefore, will you explain the limited purpose for which these exhibits are put in evidence?

A. Yes.

The airline costs which the participating airlines submitted here were for two limited purposes.

In the rates investigation, the airlines and the Bureau, the AFFA and the REA all submitted estimates of capacity and noncapacity costs, and the airlines and the Bureau submitted proposed cost-oriented tariffs which were equivalent to the cost of the airlines plus return and tax.

The airlines, by a slight margin, had the highest estimate of the costs. The REA had the lowest estimate of capacity and noncapacity costs.

We submitted these exhibits to show that even under the highest cost estimates of the rates investigation, the cost of shipments by air express are below the cost of minimum air freight shipments.

We have other exhibits to show what the examiner found the cost of minimum air freight shipments were in other proceedings.

Because the air express shipment costs are lower, we then went on to say that the shipper received the benefit of these lower costs on small shipments.

The second limited purpose of the exhibits from the

rates case was to show that if the forwarders tendered shipments to the airlines at retes which were equal to either the pre-interim tariff or to the suspended tariff, or to the proposed divisions -- or to the proposed tariff of the airlines, at the divisions of the air express rates, the revenues which the airlines would receive from these tenderings would be below airline costs for minimum freight shipments. And the minimum freight shipment costs are shown in PA-419.

Now, we know that when you have a controversial case like the rates case, that the cost which the CAB and the Examiner will finally decide upon will not necessarily be those of any one party to the case. It may be our costs with slight modifications for some of the Bureau's observations, or it may be the Bureau's costs with the addition of things like reservations and sales expense, which they say they probably should have included.

But we are not debating the relative differences in this case. These are entered in order to have some basis in this case for comparing air express costs with the proposals of the forwarders.

EXTRACT 2

WITNESS: Mr. Eichner
QUESTIONS: Mr. Meiser

Q. Also, on page three you refer to the fact that the joint agreement is necessary to provide a nationwide small package service, because of the need for these various things you mention, I believe single documentation, centralized handling of insurance, claims, and tracing.

By agreement, you are referring, are you not, solely to the agreement among the airlines and not with REA?.

A. I am referring to the agreement among the airlines. Where is the paragraph we are referring to, Mr. Meiser?

Q. I am sorry, this is in your direct testimony, page three.

A. Yes, 12-8-66 is the agreement between the airlines.

Q. Now, I would like for you, if you could, to -- I would like to have your view on the same question I asked Mr. deVoursney, which is, if this is good for air express, what is their difference about the small shipment air freight traffic which warrants a different proposal?

A. Well, as Mr. deVoursney also answered to the same question, it has been suggested for air freight traffic as maybe being a rational answer to the losses which the airlines think they have in the air freight field.

I don't think there is anybody who knows airline costs who thinks the airlines are making money out of air freight. We are going to have a whole rate investigation to

look into it.

At the same token, judging by the Board's decision in Phase 7 of the fares investigation, it looks as if the Board thinks that air express, like air mail, can recover fully allocated cost and we can eliminate these losses, but we cannot really foresee how to eliminate the losses on air freight.

That will have to be continued to be priced on a by-product basis.

391(a)
NOTICE DATED JANUARY 3, 1972

CIVIL AERONAUTICS BOARD
WASHINGTON, D.C. 20428

INVESTIGATION OF AIR EXPRESS RATES

DOCKET 22387

NOTICE TO ALL PARTIES:

REA Express, Inc. (REA) filed a motion on December 3, 1971 to include in the record of this proceeding excerpts from the transcript of the hearing in the Express Service Investigation, Docket 22388. This is the third motion filed by REA since the close of the instant record requesting that various additional evidence be included in it. The two prior motions were denied.

As in each previous instance, the participating carriers and the Air Freight Forwarders Association (AFFA) have filed timely answers opposing the motion of December 3, 1971; therefore, the said excerpts cannot be accepted for inclusion in this record (Rule 24 (j) of the Board's Rules of Practice). Nor does the proferred evidence appear to warrant reopening the hearing at this late stage in order that it may be considered herein.

Upon consideration of REA's motion and the answers thereto, the said motion to include excerpts from the Express Service Investigation, Docket 22388, in the record of this proceeding is hereby denied.

Milton H. Shapiro
Hearing Examiner

January 3, 1972

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

INVESTIGATION OF AIR EXPRESS RATES

DOCKET 22387

INITIAL DECISION OF EXAMINER MILTON H. SHAPIRO

Served: May 1,1972

Upon:

Elroy H. Wolff, 1156 - 15th Street, N. W., Washington, D. C. 20005, for REA Express, Inc.

Russell S. Bernhard, 1625 K Street, N. W., Washington, D. C. 20006, for all air-line parties.

Ronald P. Wertheim, 1700 Pennsylvania Avenue, N. W., Washington, D. C. 20006, for The Flying Tiger Line, Inc.

Robert N. Meiser, 1730 Rhode Island Avenue, N. W., Washington, D. C. 20036, for the Air Freight Forwarders Association.

John Wilson, 50 Cooper Square, New York, New York 10003, for Hartz Mountain Products Corporation.

Captain Richard A. Peterson, Regulatory Law Office, Office of the Judge Advocate General, Department of the Army, Washington, D. C. 20310, for the Department of Defense.

Thomas F. Meagher, Jr., U. S. Postal Service, Washington, D. C. 20260, for the Postmaster General.

Victor M. Mercogliano, Civil Aeronautics Board, Washington, D. C. 20428, for the Bureau of Economics.

This initial decision is rendered pursuant to the authority delegated to Examiners under Rule 27 of the Rules of Practice in Economic Proceedings. It becomes effective as the final order of the Board 30 days after service thereof unless a petition for discretionary review is filed within 21 days after service thereof in accordance with Rule 28 or the Board issues an order within said 30-day period to review upon its own initiative. If a petition for discretionary review is timely filed or action to review is taken by the Board upon its own initiative, the effectiveness of this initial decision is stayed until further order of the Board.

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UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

INVESTIGATION OF AIR EXPRESS RATES

DOCKET 22387

The interstate and overseas air express rates, charges, and provisions under investigation herein are unlawful.

The lawful maximum interstate and overseas rates and charges, which reflect the full costs of air express service, are those set forth in Appendix E, attached.

The lawful minimum charge is $8.22 for any shipment (excluding shipments of live animals and birds) weighing five pounds or less and moving at distance scales 1 or 2; provided, however, that if, subject to certain conditions, REA and the air-line parties to the tariffs under investigation so agree, the lawful minimum charge may be $8.50 for any shipment weighing ten pounds or less moving at any distance up to and including scale 10.

The divisions of revenues between REA on the one hand, and the air lines on the other, under investigation herein are unjust, unreasonable, and inequitable.

The just, reasonable, and equitable divisions are those set forth in Appendix E-1, attached, but are subject to negotiation by REA and the air lines within a defined zone of reasonableness.

No retroactive adjustment of the divisions is required.

Appearances:

John J. C. Martin, Elroy H. Wolff and Peter G. Wolfe for REA Express, Inc.

Russell S. Bernhard and William C. Burt for all air-line parties.

Ronald P. Wertheim, David M. Schwartz and J. W. Rosenthal for The Flying Tiger Line, Inc.

Louis P. Haffer and Robert N. Meiser for the Air Freight Forwarders Association.

John Wilson for Hartz Mountain Products Corporation.

Captain Richard A. Peterson for the Department of Defense.

Thomas F. Meagher, Jr., Robert A. Scherr, and Melvin Rosenberg for the Postmaster General.

Marshall Meyers for The American Quality Guild, Robinson-Bishop, Inc., and Stearman Electronics, Inc. under Rule 14 of the Board's Rules of Practice.

Victor M. Mercogliano, Steve K. McKinney and Daniel M. Radcliffe for the Bureau of Economics.

INITIAL DECISION OF EXAMINER MILTON H. SHAPIRO

STATEMENT OF THE PROCEEDING

Two air express rate filings are under investigation in this case which involves the first overall examination of air express general commodity rates in the Board's history. The first filing marked to become effective July 27, 1970, was suspended by the Board on July 23, 1970 (Order 70-7-109). The suspended tariff revisions involve proposals of REA Express Inc. (REA) and the 33 direct air carriers (air lines) participating in the tariffs with REA to revise the structure of air express rates and charges in the United States and between the United States and Canada. Among other things, the proposed revisions would increase the minimum charge from $8.00 to $8.50 per shipment under both general, and most specific, commodity rates, effect rate increases for relatively small shipments and short-hauls and decreases for larger shipments and longer hauls. It also would increase the excess valuation charges from 18 cents to 30 cents per $100.00 of excess valuation. Thereafter, REA and the air lines made a new filing of tariffs on August 24, 1970, marked to become effective September 25, 1970, which involved reductions of the earlier proposed increases and decreases. The Board on September 18, 1970, by Order 70-9-98, instituted an investigation of such rate revisions which were proposed to provide REA with revenues during this investigation; accordingly, the second filing is referred to herein as the interim tariff.

By Order 71-2-68 adopted February 12, 1971, the Board reinstated the petition and complaint of REA in Docket 22096 solely for the purpose of preserving the date of filing, April 9, 1970, to allow the Board to

exercise the legal option to grant relief in this proceeding retroactive to that date. The Board consolidated this reinstatement with the instant investigation. The effect of this order was to include the period from April 9, 1970, up to, but not including September 25, 1970, as well as the succeeding period, for consideration in connection with the issue of the lawfulness of the divisions of the proposed rates and charges as between REA and the air lines.

After notice a hearing was held and briefs and reply briefs were filed to the examiner by REA, the air lines, the Air Freight Forwarders Association (AFFA), the Allied American Bird Company, division of the Hartz Mountain Products Corporation (Allied) and the Bureau of Economics (Bureau). 1/

THE ISSUES

As specified in Orders 70-7-109, 70-9-98, and 71-2-68, referred to above, the following are the primary issues in this proceeding:

1. Whether the rates, minimum charges, and provisions under investigation, and rules, regulations, and practices affecting such rates, minimum charges, and provisions, are or will be unjust, unreasonable, unjustly discriminatory, unduly preferential, unduly prejudicial, or otherwise unlawful, and if found to be unlawful, what are the lawful rates, minimum charges, and provisions, and rules, regulations, or practices

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1/ On November 24, 1971, by Order 71-11-98 the Board authorized the filing of tariff revisions effective November 29, 1971 which, among other things, increased express charges by approximately $1.00 per shipment. The Board found that, pending the Board's final decision herein, and without prejudging it, REA should have the benefit of the added revenues "because of its very difficult overall financial condition".

affecting such rates, minimum charges, and provisions, which the Board should determine and prescribe?

2. Whether the divisions of the rates and charges under investigation are or will be unjust, unreasonable, inequitable, or unduly preferential or prejudicial as between REA and the direct air carriers and foreign air carrier parties thereto, and if so, what are the just, reasonable, and equitable divisions thereof to be received by the several air carriers which the Board should determine and prescribe?

By agreement of the parties, the primary issues include subsidiary issues which the examiner and the Board may consider in this investigation. These are detailed in Appendix A.

POSITIONS OF THE PARTIES

REA:

The air lines have lost huge sums on air freight operations and have reaped tremendous profits from air express. This constitutes unjust and unreasonable discrimination against air express. The Board should prescribe the air express divisions between REA and the air lines so that air-line divisions from air express bear the same relationship to air-line air express costs as air-line freight revenues bear to air-line freight costs. This means that the air lines should receive a maximum share of air express revenues of 17.18 cents per revenue ton mile.

The "ideal" tariff would contain a $9.00 minimum charge per shipment, including not less than $6.50 as REA's share, and would peg rates somewhat above the interim tariff rates for short-haul, lower weight traffic and below the interim and suspended tariff rates for longer haul, higher weight shipments.

The major differences between REA's evidence on air-line air express costs and the evidence submitted by the other parties stems from the use of priority and density weightings by the Bureau, the air lines and AFFA, and the air lines' use of a manpower survey to develop traffic related costs. There is no evidence to support the density and priority weightings; moreover, the air lines' manpower survey must be disregarded as unreliable.

The precise tariff structure should not be prescribed by the Board. If the Board sets the maximum amount of the air lines' divisions, REA's costs will provide a floor for the tariff. Competition from air freight forwarders will provide a ceiling on air express rates.

The air lines should be required to reimburse REA from April 9, 1970, forward for the unfair and unreasonable divisions they have exacted.

Air Lines:

For a period of years the air lines have been carrying express at rates far below allocable costs which provided no return on investment. While the interim tariff provides REA with a full return, the air lines receive annually $21 million less than the Board's normal return requirements.

This case should result in a rate structure which permits air express to assume a fair share of air-line costs. This would require an increase in the express rates to the public and an increase in the division received by the air lines. At virtually every weight and distance bracket there is a substantial gap between revenues and costs. The primary reason for the cost deficiency is that the division received by the air lines is not cost related.

The Board does not have the power under Section 1002(h) of the Act, as contended by the Bureau and REA, to prescribe the division of air express revenue between REA and the air lines. It can only condition its approval of the air express agreement between REA and the air lines under Section 412 of the Act upon acceptance by the parties of a formula prescribed by the Board for the division of air express revenue. The only issue which would require a decision on the applicability of Section 1002(h) is REA's request for a division adjustment retroactive to April 9, 1970. But the evidence shows that the air lines have been losing substantial sums since that date from handling air express traffic.

AFFA:

The carriers, particularly the air lines, have been subsidizing air express service to a remarkable degree in recent years. The Board must take special care not to allow the carriers to continue to give away their air express program. The proposed below cost pricing for air express presents a very serious threat to the air freight forwarders. The proposed rate structures were designed not to promote new traffic but to put REA in a position to engage in massive new competition with the air freight forwarders for the first time.

The interim tariff underprices air-line air express service by 29.5 percent and the suspended tariff underprices it by 36.8 percent. The tariffs also underprice REA service as indicated by the fact that during the last half of 1970 REA lost $3.6 million even though the interim tariff was in effect during part of the period.

To cover costs and return across all weights and distances the

tariff structure should be revised to eliminate all reductions in the interim and suspended tariffs and the rate increases proposed therein should be further increased to compensatory levels.

Allied:

In attempting to determine the proper measure of REA cost allocations between surface and air shipments, REA has failed to meet its burden of proof. The exhibits it has submitted are completely unsupported. Similarly, the air lines have failed to sustain their burden of proof to justify their division of revenues.

The manpower survey used by the air lines to estimate the cost of the traffic servicing function was full of errors, and, therefore, valueless.

The reasonable rate level for air express shipments cannot be determined from this record and could only be constructed after a period of time in which the parties had filed reporting data with the Board. Nor can lawful rates and charges be based on this record but only on concrete facts not in the Board's possession which can only be provided by additional reporting of data.

The appropriate rate structure to be established is the lowest possible charge to the shipping public commensurate with the carriers' making a sufficient profit to continue providing the service to the public. Minimum charges should be set at a level covering all costs of pickup, line-haul and delivery that cover a carrier's basic shipment cost.

The Board should issue an order to continue the interim tariff and to have all of the air express partners furnish the Board monthly

reports containing the facts of air express costs, both ground and air, so that a proper determination of the division of revenues can be made.

Bureau:

The interim and suspended tariff rates and those previously in effect are and will be unjust, unreasonable and otherwise unlawful.

The divisions of revenue between REA on the one hand and the air lines on the other which they propose are unjust, and reasonable divisions should be prescribed. REA and the air lines should divide the air express revenues so that 48 percent is allocable to REA and 52 percent to the air lines.

Air express rates should be based on an appropriate share of fully allocated costs including return and taxes. Based on the cost of shipments weighing 15 pounds or less, minimum charges increasing with distance for shipments weighing 15 pounds or less are reasonable. For shipments weighing 16 pounds or more air express rates should be determined by a Bureau formula. In addition to the Bureau's proposed rate structure for shipments weighing 16 pounds or more, REA and the air lines should be permitted to file air express rates within a range five percent above or below the formula rate.

AIR EXPRESS SERVICE IN PROFILE

The air express service of REA and the air lines is defined by the Air Express Agreement (Agreement C.A.B. 17935) between REA on the one hand and 33 scheduled air lines on the other. The air-line parties comprise eleven trunklines, nine local service carriers, five international carriers, three all-cargo carriers, three helicopter carriers, one commuter air line and an Alaskan air line.

The agreement defines air express as a service by the parties rendered pursuant to an air express tariff covering air transportation of property between points in the United States or between points in the United States and Puerto Rico or between a point in the United States and a point in Canada.

The air lines undertake to provide regular and dependable air service for the transportation of air express, and to accord it priority of handling and space on aircraft subject only to the demands of air mail, passengers and their baggage.

To enable them to move air express traffic the air lines are parties to a second contract (Agreement C.A.B. 12866) which provides for their representation by an Air Express Committee in their dealings with REA.

Pursuant to the agreement REA has established a separate Air Express Division which is responsible for the ground transportation and related services of air express shipments. Therefore, REA performs the pickup and delivery of air express, the issuance and preparation of necessary shipping documents, receipts, clearances, and notices, the collection of air express charges, and the terminal, routing, forwarding, tracing and any other ground and accessorial services offered by the air express tariffs.

REA serves more than 22,000 cities and towns throughout the country from approximately 3,375 terminals. It operates air express terminals on airport property at 65 airports in 63 cities. In each of those cities it also maintains surface terminals which handle both air and surface

shipments. It provides air express service throughout its system and transports by air express commodities of all descriptions including such items as live animals, precious jewels, human blood, radioactive isotopes, works of art, cancelled checks, etc.

Air express shipments are sorted first at terminals, transferred to the airport by a "tripper" truck and are given specialized tracing and customer services. In some cities pickup vehicles rendezvous at certain times and places during the day and transfer air express traffic to a tripper vehicle which takes the shipments directly to the airport for quick service. The tripper also transfers air express to the route trucks for immediate delivery. Air express is loaded last on the delivery trucks and delivered first to the consignee.

At cities where REA does not have an office at the airport, deliveries and pickups are made at the airport directly to and from the air lines receiving or forwarding air express. Besides the cities where REA leases terminal space direct from the airport authority, it also leases space in other cities from an air-line party to the Air Express Agreement in order to conduct its operations on the airport property. In still smaller cities REA conducts its business from a surface terminal located for the convenience of both the surface and air services.

About four-fifths of air express traffic moves by combination aircraft and the rest by all-cargo equipment. The top 25 air express stations account for 75 percent of air express traffic. More than half of the air express traffic originates at ten cities. Some 439 airport cities generate less than one ton of air express a day.

Air express shipments are characteristically short-haul and primarily lightweight. The average weight of a shipment has been approximately 27 pounds in the last three years. Over 41 percent of the shipments weigh nine pounds or less, over 65 percent weigh less than 20 pounds and 89 percent less than 50 pounds. Similarly, 60 percent of the shipments move 800 miles or less.

Air express shipments totaled 9,866,300 in 1969 but have been declining markedly so that by the year ended September 26, 1971, they totaled only 6,643,800. So, too, have air express revenues declined: from $96.5 million in 1969 to $79.6 million during the year ended September 26, 1971. 2/

THE OPERATING RESULTS OF REA'S AIR SERVICE

Since the standard usually applied by the Board in ascertaining the reasonableness of rates is whether they are reasonably related to the actual costs of the services provided, 3/ the primary problem to be considered is the determination of the costs incurred by REA and the air lines in providing air express service. Almost all of the record was devoted to this task which has proved a prickly and elusive challenge for all concerned.

The 1969 Operating Results

At the prehearing conference the air lines requested the parties to stipulate that REA and air-line costs would be based on calendar

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2/ Additional air express traffic and revenue data for the years 1969 and 1970, and for the first nine months of 1971 are provided in Appendix I.

3/ The Board's standards of reasonableness are discussed in more detail, infra, at page 64..

year 1969 operations. AFFA objected because it favored reliance on fiscal year 1970 data. However, since so much of the kinds of data which the air lines would have had to furnish for a later period had already been supplied for calendar year 1969 as part of the record in Phase 7 of the Domestic Passenger Fare Investigation, 4/ the examiner ruled in favor of using calendar year 1969 operating results to determine REA and airline costs so that the parties would be spared the expense of preparing many new exhibits. The Bureau has confined its presentation to the operating results of that year, submitting, in addition, forecasts of 1971 and 1972 air express costs. But in its brief it states that, on further analysis, it believes that owing to the steady decline in air express shipments, beginning with the latter part of 1970, no reasonably reliable forecast of air express traffic is now possible, and that the best evidence on costs is to be found in the 1969 data.

REA does not share this view of the 1969 data, at least as to its own operating results, and predicates its case on calendar year 1970 data. REA is persuaded that the results of two important cost studies it performed in 1970 - a pickup and delivery survey and a terminal platform study - cannot be meaningfully related to 1969 costs. REA developed 1969 costs only because it was requested to do so by the other parties and has repudiated the results as the product of a "meaningless mathematical exercise". It insists that any attempt to apply the 1970 survey

4/ Docket 21866-7, Orders 71-4-59, 71-4-60, April 9, 1971. This case will be referred to hereinafter as the Fare Investigation.

study to 1969 statistics ignores a number of variables involved in the determination of costs. 5/ While the air lines and AFFA have developed analyses of REA's 1969 operations, apparently, they have also felt compelled by REA's presentation to concentrate on REA's 1970 data. On the other hand, the Bureau regards the comparatively high costs obtained by REA from the 1970 period as indicative of the fact that the pickup and delivery survey ratio may be unrepresentative. It prefers the 100 percent sample which it says is available from the 1969 actual data to a sample from only one part of 1970, especially because of the factor of seasonality which has to be considered.

In the light of REA's objections to the 1969 data, the quality of the evidence actually furnished at the hearing, and in order to take advantage of the most up-to-date information available, on reconsideration, the examiner has concluded, notwithstanding his ruling at the prehearing conference that 1969 would serve as the base year, that the rates under investigation should be tested against 1970 data primarily, and that the REA operating results for 1969 should serve as a point of reference to help check the reliability of the 1970 data. Given the

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5/ REA lists these variables as follows: (1) the ratio of pickup and delivery air shipments to total air shipments, (2) the ratio of pickup and delivery surface shipments to total surface shipments, (3) the ratio of surface shipments to air shipments handled at air terminals, (4) the ratio of surface shipments to air shipments handled at surface terminals, (5) the ratio of total shipments, air and surface, (6) the ratio of surface to air terminals, (7) miles per pickup and delivery shipment at air terminals, (8) miles per pickup and delivery shipment at surface terminals, (9) frequency of air-line flights at the various airport stations.

REA charges both the Bureau and the air lines with failing to account for all of the foregoing variables except the fifth in their calculations for 1969.

available sources of information, it is less hazardous to accept the air lines' results for 1970, than to attempt to relate REA's 1970 surveys back to its 1969 operations. Inasmuch as the air lines urged that 1969 be considered the base year, and since there are no similar problems clouding the air lines' 1969 data, the findings as to air-line costs have been made in reliance on both 1969 and 1970 data.

Because of the marked, continuing decline in air express traffic since 1969, as previously noted, such forecasts as have been submitted by the parties through 1972 must be discounted. Instead, actual traffic and revenue data through September 1971, as reported by REA since the close of the hearing, will be relied on where appropriate. 6/

On the basis of the evidence, and recognizing the limitations of the data affecting the required allocations and direct assignments of expenses, it is found, as shown in Appendix B, that REA's operating costs in 1969 totaled $58 million before return and taxes.

The 1970 Operating Results

"Other revenues"

The air lines complain that while REA earned $4,389,000 in "other revenues" in 1970, none were assigned to air express. They maintain that these revenues must be assigned to air as well as to surface express on the basis of the relative revenues of both. REA objects that expenses related to "other revenues" should be excluded in those instances where it has identified them. It claims that such revenues are derived from special services which are not necessarily to be associated with surface transportation nor are they to be regarded as air revenue.

6/ The detailed data underlying the computation of 1969 costs have not been provided in an appendix since 1969 is not treated herein as the base year. However, these costs were, in fact, determined in accordance with the methods used to arrive at REA's operating costs in 1970.

A review of the various items discloses certain miscellaneous revenues of $137,000 were received for handling U. S. mail between post offices in surface operations only. Accordingly, these should be excluded from consideration as "other revenue" from air transportation. As for the other items, some should be classified as accessorial charges, and treated accordingly, namely custom brokerage fees, C.O.D. fees, and cold storage charges - all of which total $2,972,000. REA has been unable to identify expenses associated with the remaining sources of "other revenues", totaling $1,280,000, and such "other revenues" are, therefore, available for allocation to REA's air express service. An allocation of 30.03 percent of the total $1,280,000 figure, or $384,000, is indicated on the basis of the percentage which domestic air express revenues in 1970 represented of total REA revenues. 7/

While, according to the air lines, 1970 air revenues accounted for 32.83 percent of total system revenues and, therefore, $1,441,000 of "other revenues" should be assigned to air express, they did not consider that, as shown above, approximately $2,972,000 of the total of $4,389,000 claimed by the air lines as total "other revenues", are classifiable as accessorial charges. In 1970 REA received revenues of

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7/ Recent Board treatment in the Fare Investigation of a similar problem involving revenues less directly related to the services under examination supports this allocation. At page 26 of the Phase 7 mimeo. opinion the Board said, "These net revenues are derived from services performed with the same facilities as are used for the provision of passenger services, are an incident to the performance of the passenger services, and presumably could not and would not be offered except as an adjunct to the passenger services. Under these circumstances, any net revenues which result from these incidental services ought to go towards the reduction of the overall burden of passenger services."

$2,378,000 from accessorial charges imposed in the performance of air express service which are not reflected by REA in its computation of its 1970 operating results (Appendix C-1, page 18). Under the circumstances, the latter revenues, in addition to the above allocated "other revenues" of $384,000 should be offset against REA's total operating expenses in 1970 (See Appendix B). 8/

Allocations and direct assignments of expenses

REA's pickup and delivery service - Largely because of REA's many revisions of its exhibits, its efforts to allocate its pickup and delivery costs as between surface and air express evolved into a veritable odyssey of cost accounting. Considering the many special problems involved in this undertaking, REA's consultant decided that a special study of its pickup and delivery functions was necessary to separate air and surface costs in the REA account, Vehicle Employees-Pickup and Delivery, and other related accounts. 9/ REA followed ICC Form 4 which is used by the ICC for special studies of city pickup and delivery functions of motor

8/ The record offers no way to link the $2,378,000 figure reported by REA as accessorial charges and the $2,972,000 it has grouped in one of its exhibits (REA-5023) under the heading of "miscellaneous revenues", and which it prefers to have regarded as derived from special services not to be identified with either air or surface transportation. However, these are found to answer the description of revenues from total system accessorial charges.

9/ In order to obtain a better separation between surface and air expenses REA's consultant conducted a second study regarding the platform functions of REA. This was based on certain REA surface terminal forms ("3312") and the air terminal forms ("AES6") in regular use, which covered the period from June 29 through July 26, 1970. 757 surface forms and 35 air forms were supplied reporting the count of air and surface shipments handled both over-the-counter and actually picked up and delivered.

carriers.10/ The report form is intended for a computation of the total amount of time at stops and the total time of the vehicle while it is moving as well as to help identify the types of stops, e.g., whether pickup or delivery and whether prepaid or collect.

The study was designed to cover 35 terminals by checking two air terminals and three surface terminals on one day of a whole week of surveying in November 1970. The terminals surveyed were determined by random selection. Form 4 reports were received from 810 drivers.

REA has made a series of revisions to its exhibits relating to the Form 4 survey, both to bolster its position and respond to criticism by the other parties. Despite REA's persistent reworkings of the survey, it is still deficient in certain respects, but with appropriate adjustments it can be salvaged as a guide for making the necessary allocations. In any case, it offers the only reliable method available in this record of allocating pickup and delivery costs between air and surface express. Accordingly, the examiner relies on the Form 4 survey after making further adjustments of the data to avoid undue bias and minimize errors.

The pickup and delivery operations of REA are its largest single system cost center. Early in the case, it allocated those system costs on the basis of shipment miles. But in its structure exhibit it also allocated the same expenses for air on the basis of pieces and shipments in a ratio of 52-48 percent, respectively. After the Bureau responded that REA should have allocated between air and surface expenses in the

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10/ The Form 4 study also became known during the course of the proceeding as the "Fauth" study, the name of the REA consultant who conducted it.

same way as it did in its structure exhibit, REA adopted a new approach to both its level and structure exhibits which reduced the air express cost level and shifted the amounts allocated to pieces and shipments from 52-48 percent, respectively, to 18-82 percent.

REA's allocation of various accounts by shipments and pieces treats air shipments and pieces as though they were handled like surface shipments and pieces. But this is not the fact. As contrasted with surface shipments and pieces air shipments and pieces are given expedited service, require relatively more of management's time, and, therefore, incur more expense. REA's assignment of terminal rents on the basis of pieces includes an assumption that the rents at airports are comparable with those at surface facilities, but, again, the fact is that airport space is more expensive than surface terminal space. In both instances, therefore, the REA methods of allocation tend to understate air express costs.

Because of its dissatisfaction with the fundamental surface-air ratios resulting from REA's study and the reliability of the underlying raw data in the Form 4 survey, the Bureau prefers to use a piece-mile ratio for allocating pickup and delivery expenses. 11/ The Bureau also favors a piece-mile ratio because of REA traffic data revealing that surface express shipments are composed of almost twice as many pieces as air express shipments and are substantially heavier, but not beyond the capability of a single vehicle operator. To give weight to evidence that vehicles at exclusively air terminals travel considerably farther

11/ As already noted, the Bureau has limited itself to determining 1969 operating results, but in so doing has adopted data from REA's 1970 studies and attempted to relate them back to the 1969 experience.

for every shipment pick up or delivered than vehicles at surface terminals, the Bureau incorporated the mileage factor in its unit of measurement.

But the net result of the Bureau's technique of allocation is a 1969 cost per air express piece which is ten cents less than the cost per surface express piece. 12/ This discrepancy is enough in itself to discredit the Bureau's method. Moreover, the costs of pickup and delivery operations for small shipments are generally more shipment-related than piece-related. The miles the driver travels are more closely related to shipments since these are what he picks up regardless of the number of pieces. Similarly, the use by the Bureau for allocation purposes of the piece-mile ratio to cover all elements of the driver's working time including running, stops, starting up, loading and unloading is hardly consistent with the facts of operation. On the other hand, REA's use of shipment miles as a basis of allocating running time, shipments and pieces to allocate time at stops, shipments as related to starting up time and pieces to cover loading and unloading time reflects more accurately the

12/ Bureau Estimate of Comparative Costs of Air and Surface Express Pieces

	1969
Total Operating Expenses - Domestic Air	$ 53,819,000
Total Operating Expenses - All Other	$238,716,000
Total REA System (Excluding Express Payments)	$292,535,000
Domestic Air Express Pieces	13,704,400
Surface Express Pieces	59,444,160
Cost per Air Express Piece ($53,819,000 ÷ 13,704,400)	$3.92
Cost per Surface Express Piece ($238,716,000 ÷ 59,444,160)	$4.02

By comparison, as found later herein, the examiner's computations show that the 1969 cost of transporting an air express piece was $4.38, or 47 cents more than the $3.91 cost of transporting a surface express piece.

costs involved in each operation. Unfortunately, the record demonstrates that the drivers' reports of running time were seriously in error due to rounding off by some drivers to the nearest five-minute time interval and to varying methods of accounting for lunch periods. In addition, the keypunching of the data into the computer was not checked for accuracy, and as a result the data must be found to be unreliable. This has led the examiner to reject the REA data as to running minutes as a basis for allocation, and to adopt instead the shipment mile ratio unadjusted by the minutes survey. As a consequence, the examiner has found it unnecessary to make the kinds of adjustments attempted by the air lines as a means of preserving the utility of the REA survey. 13/

As a result of applying the data derived according to the original version of the REA Form 4 survey it is found that REA's total pickup and delivery expenses in 1970 were $43,451,000, of which $13,548,000 are allocable to domestic air express. 14/

However, AFFA contends that REA's pickup and delivery costs should be increased by $2.6 million to correct for the use by both REA and the

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13/ These adjustments include (1) reductions in the portion of pickup and delivery costs allocated to air on the basis of shipment mile related minutes to reflect apparently faster air vehicle speeds shown in the Form 4 study and (2) reductions in air pickup and delivery costs allocated on the basis of minutes at the stop and also during start-up time, to reflect the actual times produced by the Form 4 study rather than the times produced by the single shipment stop analysis originally employed by REA and (3) miscellaneous reductions in other air pickup and delivery costs of minor significance such as those associated with the tripper service, insurance, etc.

14/ Appendix C-1, pp. 3 and 10, account number 042-00 for the period January-June, 1970, and account number 523-01 for the period July-December, 1970.

air lines of improper air and surface shipment miles. AFFA claims that the error occurred in applying average shipment miles experienced at surface terminals to air shipments handled at the surface terminals and average shipment miles experienced at the air terminals to surface shipments handled at air terminals in determining the surface and air shipment mile factors. It argues that, instead, the average experience at air terminals where the data represented almost exclusively air traffic should have been applied to air shipments wherever handled and the surface terminal experience, which represented for the most part surface traffic, should have been applied to surface shipments, wherever handled. But no such adjustment is warranted since, in fact, at surface terminals the handling of both air and surface shipments by the pickup and delivery truck operators is mainly indiscriminate.

Automotive insurance expense - It appears that REA's method of allocation based on all shipments results in an overstatement to air express of public liability and property damage insurance expense. The problem is that air shipments account for only 27.14 percent of shipments picked up and delivered whereas REA has used a 32.76 percent ratio of total shipments for its allocation. The evidence reveals that a substantial part of REA's insurance expense in the last half of 1970 included employee welfare expense, and that this should be eliminated for lack of information to identify automobile insurance.

In a post-hearing exhibit REA claims that its premiums for some insurance expense were based on revenues, and, therefore, it is proper to use total shipments as a basis for the allocation rather than pickup

and delivery shipments. It did not, however, provide the information with respect to the revenues used for this allocation. The use of total shipments as the basis of allocation is not justified since the insurance expense is related to vehicles. Some indication of the overstatement is available from the fact that in 1969 there was an excess allocated to vehicle insurance alone of $130,000.

Application of the correct ratio of pickup and delivery shipments and the elimination of non-automotive insurance expenses results in the allocation to air express of $383,000 in 1970 (Appendix C-1, pp. 4 and 15).

Lease expense - REA has capitalized its leased equipment expense for the purpose of determining its return on investment. In so doing, however, it has not made the related adjustment showing depreciation expense instead of lease expense. Accordingly, the REA method duplicates air express lease expense. To avoid duplication the examiner, after allowing for REA's lease expense as an operating expense, has excluded any capitalization of such expense from the REA investment base.

General overhead expense - The Bureau takes issue with REA's allocation of general overhead expense on the basis of shipments, submitting that it is not as suitable or consistent with standard practice as its own method based on total salaries in the maintenance, transportation, traffic and insurance functional accounts. However, as REA points out, the general account covers more than supervisory employees; in fact, most of the expense in this category stems from the finance and purchasing departments which are largely concerned with documentation and supplies,

both of which are tied to shipments. Accordingly, it is found that REA's allocation by shipments is appropriate and has been retained for costing both 1969 and 1970 operating results.

Transportation commissions - REA disagrees strongly with the Bureau's acceptance of the direct assignment of 5.7 percent of air express revenue commissions as having been paid to agents during 1969 and the first half of 1970 which the carrier used in its rate justification of the suspended tariff submitted August 24, 1970. REA contends that not only is the justification not a matter of record in this proceeding, but also that since the payment of commissions depends on revenues, an allocation based on revenues should be used to account for commission expenses. It points out that since 28 percent of 1969 revenues are assignable to air express, and 72 percent to surface, it is unreasonable to assert that commission agents were responsible for only six percent of air express traffic.

REA is content to rely on this argument without offering any evidence or explanation as to why its own representations in its rate justification are no longer reliable. REA's consultant who sponsored the allocation based on revenues was unfamiliar with the source of the actual amounts recorded by the company as commissions. It appears that, without checking into the accuracy of the direct charges, he made a conventional allocation at his own convenience. At the same time, the fact that such an allocation as a substitute for the carrier's own direct charges increases REA's functional account for air transportation expenses by more than a million dollars cannot be overlooked. Under the circumstances, the consultant's more convenient method amounts to a luxury which cannot be indulged in a

rate-making proceeding. Accordingly, in view of the foregoing, and all the evidence of record, it is found that the 5.7 percent charge recorded by REA is the best evidence of the carrier's transportation commission expense for the period January 1, 1969 through June 27, 1970 15/ and should be reflected herein.

Terminal service costs - AFFA is the only party to take issue with REA's terminal costs during the second half of 1970. It argues that the evidence shows REA's terminal expenses are increased because of the air express priority, but that REA has made no provision for this cost factor. In order to reflect such a factor AFFA would apply a priority weighting of 1.5 to REA's air pieces and shipments, thereby increasing the terminal expense allocation factor from 29.96 percent to 39.1 percent as applied to payroll plus welfare accounts and from 18.30 percent to 25.1 percent for all piece-related accounts. AFFA justifies the weighting by reference to the evidence of the Form 4 time study showing that 69 percent more time is spent on air pieces than surface pieces in the pickup and delivery phase of REA's operation. AFFA's adjustment would increase REA's expenses for air express by $3 million dollars.

Although AFFA cites some general references by REA witnesses to the priority accorded air express over surface express throughout REA operations, there is no specific evidence that REA does incur additional costs as a result of its terminal handling of air express traffic. In

15/ Under the accounting system inaugurated by REA as of July 1, 1970, the problem posed by this issue was eliminated for any subsequent period.

that event, there is no support for AFFA's priority weighting; accordingly, it cannot be accepted. 16/

Conclusion - In view of the foregoing, the evidence of record, and the various allocations and assignments of expenses made in Appendix C-1, it is found that REA's air express costs of operation, before return and taxes, were $55.8 million in 1970. 17/

Rate of Return

REA maintains that it must have earnings of at least $3.5 million or a return of approximately 15 percent on investment using its reconstructed balance sheet in order to satisfy the tests laid down in Phase 8 of the Fare Investigation that a rate of return be "sufficient to compensate the carriers for their costs of capital, provide the equity owners with returns comparable to returns on investment in enterprises having comparable risks, and enable the carriers to maintain their credit and to attract capital." In support of this request REA relies on its debt-equity ratio of 98:2; the extremely unfavorable comparison of REA with almost any alternative investment opportunity; its poor standing as a credit risk as a result of cumulative losses of over $68.1 million during the three years ended December 31, 1969; and its need for modernized and

16/ On the other hand, the consideration given later herein to the impact on traffic servicing costs resulting from the special efforts made by the air lines to give priority to the ground handling of air express was dictated by definite evidence of air-line operating procedures.

17/ The record affords no test of the efficiency and economy of REA's operations. Despite testimony of strenuous measures taken by new management since 1968 to reduce REA's costs, there is no evidence as to whether the carrier's costs were actually reasonable and proper in 1970.

expanded facilities which will cost about $55 million during a five-year period ending December 31, 1975. 18/ REA also argues that the air freight forwarder industry is most nearly similar in terms of risk, structure, and method of operation, and that, of the forwarders, Emery Air Freight (Emery) most closely resembles REA's operations in volume. It adds that Emery has consistently shown a high rate of return on its investment such as an average of 35.5 percent during 1969 and 1970.

Because of its negative working capital and virtually negative net worth position REA urges that the Board cannot use its normal methods of determining rate of return, but must instead consider the opinion of an REA expert witness that the carrier must have a minimum of $3.5 million in order to be able to attract debt and equity capital. This would be the yield if it were allowed a return of about 15 percent on a reconstructed investment base. To REA the crucial point is not the precise amount of the rate of return, but the need for earnings of at least $3.5 million. REA finds support for its approach in those subsidy cases 19/ where, because of a carrier's very low investment base or negative net worth, the Board has granted a return on a ton-mile basis.

18/ REA has requested reconsideration of the examiner's ruling which excluded the testimony of Dr. Irving H. Plotkin identified as REA-D-600. Upon reconsideration, the ruling to sustain the objection to the exhibit on grounds of materiality is hereby affirmed. The testimony is a generalized dissertation on risk and return, prepared by an admitted non-expert on air transportation, which may be of value as an academic treatise on the broad aspects of risk and return in industry as a whole, but which makes no material contribution to the disposition of the issues here relating to establishment of a fair and reasonable rate of return for REA.

19/ REA cites Aloha Airlines Mail Rates, 38 C.A.B. 57 (1963); Rate of Return, Local Service Carriers, 31 C.A.B. 685 (1960); Trans Texas Airways, Mail Rates, 12 C.A.B. 101 (1950).

The Bureau has recommended a rate of return of 12.35 percent which is the amount found fair and reasonable by the Board in Phase 8 of the Fare Investigation for a local service carrier. This return is somewhat higher than that found by the Board to be reasonable for the trunkline carriers in that case and mirrors the Board's opinion that local service carriers are exposed to greater risks. Even though the local service carriers have access to subsidy support, there is no indication that the Board has adjusted their rate of return downward to account for their right to such support.

The 98:2 debt-equity ratio in 1969 which REA gives as one of the reasons for its requirement of the 15 percent rate of return is a paramount consideration in the determination of the reasonable rate of return for REA in this case. With virtually no equity, and debt bearing an average interest rate of nine percent, as shown in Appendix C-2, application of the 12.35 percent rate of return amply covers the carrier's 1969 interest expense of $331,000 allocable to air and yields a return on equity of $277,000 which reflects an extraordinarily high rate of return on the equity portion allocable to air.

This extreme leverage is also made possible in part because the recommended 12.35 percent rate of return is based on the average cost of debt and equity capital of the local service carriers assuming a hypothetical debt-equity ratio of 60-40 as adopted by the Board in the Fare Investigation.

Considering REA's recent history and its record of sustained financial losses, whether the rate of return is established at 12.35

percent as recommended by the Bureau or at 15 percent as urged by REA is not nearly so important as its ability to re-establish itself in the market place and reverse the declining trend of its volume of traffic. Whether he intended it or not, REA's president not only admitted REA's poor service reputation but linked it in his direct testimony with declining sales volume and a loss operation. None of the evidence touches on REA's prospects for changing its image of poor service, and so long as it persists, it may be expected that its sales performance will suffer. In fact, REA's ability to realize its potential also depends on a host of other influences such as general economic conditions, the economy and efficiency of management, its competitive position, etc. Thus, only if the winds of fortune shift to favor REA will it be able to improve its capitalization and prove attractive to potential investors regardless of how generous the recognized rate of return. Nor should it be overlooked that in certain circumstances a rate of return may be so high as to expose shippers to the burden of providing capital as well as a fair return for funds actually committed to the enterprise.

REA's plea for a return of $3.5 million per year ignores the fact that its air express operations constitute no more than about one-third of its total express operations and, accordingly, any return related to that part of its total operations can do no more than satisfy the lesser portion of its total capital requirements. It is significant, therefore, that the fixed charges on REA's debt for its total system have amounted to between $2.5 and $3.5 million over the past few years. REA's fixed charges, including interest expense on debt, are practically the total

cost of capital incurred by the entire company. Accordingly the request for a $3.5 million return would account for the capital requirements of the entire system rather than just the air express portion.

Moreover, the working capital which has been constructed by REA for purposes of determining a rate of return was developed on the supposition that REA should have been earning a return of 15 percent on its investment in recent years instead of suffering losses. As a result, REA has inflated its investment base by $25,000,000 of working capital. This constructive working capital is not part of the used and useful investment of the company; therefore, REA is asking the Board to allow a return which would make up for past losses - an approach which it has long rejected. 20/

Although REA's rate of return consultant regards it as most comparable with the air freight forwarder industry for return purposes, the only evidence REA has submitted regarding air freight forwarder earnings has been confined to Emery, which, as it happens, had a record of unusually high rates of return in 1969 and 1970, by any reasonable standard. Moreover, a single carrier which happens to have the most favorable earnings record among the many composing the industry of which it is a part cannot be accepted as reasonably representative of the capital requirements of REA.

20/ Chicago and Southern Air Lines, Mail Rates, 4 C.A.B. 419, 420 (1943). Since then, the Board has consistently refused similar requests in other cases, including that of a local service carrier group as recently as the Fare Investigation, Phase 7, mimeo pp. 35-36.

REA did submit statistical tables prepared by the First National City Bank showing the net income of leading corporations by class according to type of activity for the years 1966 through 1969. The most comparable data provided under the transportation rubric was in the common carrier trucking, and air transportation categories. In 1969, the rate of return on net worth for trucking is given as 14.9 percent and for air transport as 5.7 percent. The listing for each of these categories carries the note that due to the large proportion of capital investment in the form of funded debt, rate of return on total property investment would be lower. 21/ In view of the latter point and relying on this raw data only, which was not interpreted or explained by any REA witness, it appears that the 12.35 percent return found reasonable for local service carriers is well above the net earnings of the air lines and comparable with the net earnings of the trucking industry.

Citing REA's heavy dependence on leased property and mindful of its distorted debt-equity ratio, the carrier's consultant on rate of return proposes that the Board use an operating ratio instead of a rate of return on investment to determine the carrier's return element. His thesis is that the operating ratio is more suitable for REA and the freight forwarders, which have relatively smaller investments in their property accounts, than for direct air carriers. For support he turns to the practices of the ICC and those state regulatory commissions which have allowed motor carriers and bus companies a return element geared to

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21/ REA's Vice-President of Finance testified that the truckline industry (Class I motor carriers) is the one most similar to REA, and has been experiencing a rate of return of 11 percent.

the operating ratio. His request for an operating ratio of 95 percent modifies REA's earlier bid for an earnings element based on an operating ratio of 90 percent which it included in its justification for the suspended rates under investigation herein. In the order of suspension (Order 70-7-109), the Board capsulized its views on the propriety of this method of arriving at an earnings element in these words: "The use of an operating ratio to calculate the earnings element has not been accepted by the Board, which has generally considered that the appropriate method of computing an earnings element is in terms of a return on investment capital. An investigation would be a proper vehicle to determine the appropriate rate of return on investment and other costs presented by REA, ..." 22/

By itself the operating ratio gives no measure of the reasonableness of the return since it is not possible to rely on the operating ratio and from it determine whether the investor can have confidence in the company's soundness and in its ability to attract capital. Ultimately, the investor must look to the rate of return on investment as the measure of the adequancy of earnings. All that the operating ratio does is compare expenses to revenues and indicate what portion of the revenues is left after expenses have been accounted for. This gives no clue to whether the profit is too high or too low. The chief purpose of the operating ratio is to measure the operating efficiency of the companies within a given industry or of a particular company over a period of time.

22/ In Revised Air Express Minimum Charge for Live Animals and Birds, Order E-26405, February 26, 1968, the Board held that return on investment was the appropriate profit element for determining a lawful minimum charge for air express shipments of live animals and birds.

While the rate of return on investment approach requires the determination of an investment base and a computation of the cost of capital, in the final analysis the operating ratio method does not obviate this problem because the true measure of the investor's situation is his return on investment. As the decision in Rate of Return, Local-Service Carriers explains,

> "Thus, operating on a narrow margin, or with a high capital turnover, may present unusual problems, but the size of the margin or the rate of turnover cannot express the amount of the reward without knowing what was ventured. The investor's risk is defined by the amount of the investment. If, in fact, the venture becomes more or less risky by reason of the size of the operating margin or the rate at which the capital is turned over, the investor may well be entitled to a greater or less return on the amount ventured; but the amount of the return cannot be disassociated from the amount invested. The operating ratio cannot of itself be a yardstick of fair profit." 23/

In view of all of the foregoing and the evidence of record, and in the words of the Rate of Return case, supra, ". . . it is found that there has not been established a justification to depart from the normal and usual practice of relating the profit element to the amount of the investment." It is further found that considering the evidence as to rate of return submitted by the parties, over the long-term the 12.35 percent rate of return allowed the local service carriers in the Fare Investigation will compensate REA for its costs of capital associated with its air express service, provide the equity owners, if any, with returns comparable to returns on investment in enterprises having comparable risks, and enable REA to maintain its credit and attract capital.

23/ 31 C.A.B. 685, 733 (1960).

This finding assumes, of course, that REA can surmount the adverse conditions which have led to its unbroken record of losses since 1966 and can reorganize its capital structure by, for example, additional infusions of capital on the part of its owners. A reasonable profit element is intended only to enable REA to maintain its credit and attract capital; it is not enough in itself to restore its credit and its financial health. 24/

Future Unit Cost Increases

REA contends that in 1971 and 1972 its costs will be increased by wage and price inflation and that there will be a substantial increase in its costs per shipment. Specifically, REA assumes 15 percent payroll increases in 1970 and 1971, as well as overall inflation of 5.2 percent a year. The air lines dispute this contention as unsupported by REA's evidence and as failing to take account of REA's improved efficiency during the last several years, or of the adverse effect on its unit costs of the substantial reduction in REA's surface volume.

At the outset, it is apparent that since REA stated its position, the intervention of the national price stabilization regulations, effective August 15, 1971 25/, should diminish the inflationary forces

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24/

($000,000)

	1966	1967	1968	1969	1970	Jan-Nov 1971
REA Total Losses	.6	12.8	31.5	23.8	13.0	10.2

25/ Executive Order 11615; Economic Stabilization Act of 1970, as amended. See also Executive Order 11627, October 15, 1971.

REA mentions. Moreover, REA's new management has succeeded to some extent in its goals of improving efficiency through various system-wide economy measures. The evidence as to the inefficiency of prior management and the efforts of current management to improve efficiency and economy, such as the reduction of personnel from 21,000 in 1968 to 17,600 in 1969 with a payroll saving of $28.7 million in 1969, added to the other economies in claim costs, inventory procurement and maintenance indicate a likelihood of at least constant, if not decreasing operating costs. There have been substantial declines since 1968 in total man-hours, and a slight decrease in labor cost per piece from 1969 to 1970 despite wage increases. While REA contends that increased piece productivity did not offset higher payroll costs because the payroll cost per shipment increased from $4.80 to $5.27, or almost ten percent between 1969 and 1970, the total cost per shipment in 1970 increased only two percent as compared with the 49 percent increase in total cost per shipment between 1966 and 1969.

The record sustains the air line view that the increase in REA cost per air express shipment from $4.73 in 1966 to $7.04 in 1969, according to the REA exhibits, was due primarily to a decline by more than half in total REA shipments. By comparison, air shipments declined seven percent between 1966 and 1970. The inevitable result of the contraction of overall traffic volume was an increase in unit costs.

Between 1969 and 1970 the decline in surface volume strongly affected overhead expense. The air lines allege that between 1969 and 1970 REA allocated $3,810,000 more overhead expense to air, and, therefore,

that the ratio of overhead to direct expenses increased from 18.5 percent in 1969 to 31.4 percent during the last half of 1970.

REA has not successfully negated the foregoing evidence except as it has been able to explain about half of the total increase of $2,970,000 in general overhead expenses which it has identified as occurring in 1970 as compared with 1969. Moreover, the testimony of its president, which it refers to as repudiating the reliability of the company's 1966 accounts and any comparisons with 1966 operating results, is hardly responsive since the cost and volume trends persisted until 1970, and throughout about half of the period since new management took over in 1968.

In view of the evidence of record, particularly the efforts of the current management to achieve efficiencies and economies, and the recently introduced influence of the government's price stabilization program, REA's projected unit cost increases in 1971 and 1972, based on claims of wage and price increases, cannot be accepted.

THE AIR EXPRESS COSTS OF THE AIR LINES

Capacity Costs

Allocation of combination aircraft capacity costs

Generally, capacity costs are related to distance and include expenses such as direct operating costs, aircraft servicing, and associated overhead. To determine the capacity costs of air express carried on combination aircraft the parties have had to make two successive allocations. First, they had to divide total aircraft capacity costs between the passenger and cargo compartments, and then allocate the cargo

compartment capacity costs among the various cargo traffics. There is no dispute among the parties that total capacity costs should be allocated between passenger and cargo traffic on the basis of the relative available space in the aircraft devoted to the transportation of passengers and cargo respectively. For the most part, the parties have based their computation of capacity costs on the methods used by the Bureau in Phase 7 of the Fare Investigation which have been accepted by the Board in its decision in that case. Except for the air lines, the parties allocated combination aircraft capacity costs on the basis of the ratio of passenger compartment plus baggage space to cargo compartment minus baggage space. The air lines allocated capacity costs on the basis of the ratio of available space in the passenger compartment to available space in the cargo compartment; then they included the space occupied by baggage with the space occupied by the other cargo traffics for the purpose of allocating cargo compartment capacity costs among all baggage, freight, express, and mail.

The method of allocating capacity costs between the passenger and cargo compartments followed by the Board in Phase 7 of the Fare Investigation, as applied by the air lines has been adopted by the examiner herein as the best available.

The ability of air express to meet full costs

Except for REA, all the parties which have attempted to cost air express service - the air lines, AFFA and the Bureau - contend that it is capable of, and should bear full costs, and, accordingly, that the allocation of costs to air express should be on a joint-product basis.

On the other hand, REA supports an allocation based on treating air express as a by-product of combination aircraft service, and cites the position of the combination carriers, except American Airlines, in the Fare Investigation, supporting the by-product or revenue-offset method of allocating costs between passenger and cargo services. Agreeing with the carriers, the Board in that case decided to cost combination aircraft cargo traffic as a by-product of the passenger service.

REA objects that the air lines are guilty of playing a shell game because the result of arguing for the revenue-offset method in the Fare Investigation was to produce maximum passenger costs while a joint-product allocation would yield the maximum possible express costs in this case. According to REA the use of joint-product costing here shifts about $68.9 million of expenses from the passenger category to cargo. This means in turn $3.6 million additional air express expenses. Under the Bureau method the by-product allocation would reduce air express capacity expenses by $5.1 million and under the air lines' method by $5.9 million.

The air lines, AFFA and the Bureau read the Board's opinion in the Fare Investigation as conveying the clear intent that express traffic bear a fully allocated share of capacity and noncapacity costs. REA protests, however, that the opinion means that air-line air express costs should be determined on a basis consistent with the by-product or

revenue-offset method used by the Board in that case. 26/

What the Board intended on this point is clear enough from its "Summary of Tentative Conclusions" in the Phase 7 Fare Investigation opinion. There the Board said (at page 9) that it had decided to adopt a by-product method of allocation "primarily because the amount of costs which the freight service can recover from shippers will not be ascertainable until completion of the Domestic Air Freight Rate Investigation, Docket 22859." Considering this statement, along with the view in the disputed paragraph reproduced above that questions of allocation "should properly be decided in the context of the freight, express and mail rate investigations . . . recently instituted", makes it apparent that the costing method adopted in the Fare Investigation was not binding on other proceedings still to be tried and decided. Since, as the record in this case demonstrates, air express traffic can bear its fully allocated share of jointly incurred costs, it should do

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26/ The disputed language follows: "The issues raised by proponents of both revenue-offset and joint-product costing of passenger service involve complex questions as to the appropriate approach to the costing and pricing of cargo services in combination aircraft. In our judgment, such questions should properly be decided in the context of the freight, express, and mail rate investigations that we have recently instituted. Although we have no reason to believe at this time that mail and express rates cannot cover a fully allocated share of capacity and noncapacity costs, the freight rates do not now cover fully allocated costs in combination services and there is a substantial question as to whether freight rates can realistically be established at a level that would cover fully allocated costs. If freight cannot in fact bear a fully allocated share of jointly incurred costs, then it is obvious that the remaining portion of these costs must be borne by other traffic, principally passengers. We cannot resolve that issue on the basis of the record in this case. In this connection, we take note of the fact that much of the freight rate structure is promotional and fixed below full costs at a level designed to attract traffic which would otherwise not move."(Phase 7 mimeo op., pp. 45-46)

so. Moreover, as explained later, this conclusion is compatible with the Board's decision in the Fare Investigation.

As distinguished from freight, which the Board seriously doubts can sustain fully allocated costs, air express is a priority service marketed as such, and capacity is provided for it in accordance with the demands of that priority. The record shows that express, like mail, is accounted for in the scheduling of the carriers and on occasion it requires additional schedules in order to meet demand. Unlike freight or nonpriority mail, it cannot be handled at the convenience of available capacity.

The argument of REA that combination aircraft belly load factors are low, and that, therefore, the air express priority has no actual relevance overlooks the pattern of air cargo movement. The prime time for the carriage of mail, express and freight is at night when, as contrasted with daytime, combination flights, which are generally responsive to the demands of passenger travel, are substantially reduced. As a result, nighttime combination aircraft belly load factors are entirely different from those during the day when most combination aircraft capacity is offered, but when the least amount of cargo traffic is available for transportation.

Finally, there is no evidence that the air express service cannot bear its full share of joint costs. In fact, the lawful rate levels determined later herein, which are based on joint costs, afford REA a favorable competitive posture.

Allocation of cargo capacity costs

Allocating by space or weight - The several parties are ranged in a profound dispute with REA over the appropriate method of allocating cargo capacity costs among the various cargo traffics. While the other parties have used relative space occupied to allocate cargo capacity costs, REA insists that because combination aircraft cargo compartments and all-cargo aircraft are seldom fully used, the proper allocation method should be based on relative weight. It is not inconsequential to one of REA's ultimate aims in this proceeding - to minimize the air lines' division of revenues - that by using its method of allocating according to revenue ton miles, it arrives at air express capacity costs of $21.5 million in 1969, or about $11 million less than the next higher estimate of $32.6 million made by the participating carriers under the relative space method adopted from the Fare Investigation. Thus, while the other parties allocate about eight percent of the total capacity costs of freight, express and mail to express, REA allocates just over four percent.

Until its decision in the Nonpriority Mail Rates Case 27/ the Board had made allocations of capacity costs generally on the basis of revenue ton miles 28/ or on the basis of weight and space 29/. In the Nonpriority Mail Rates Case the Board concluded that "the primary significant physical limitation affecting capacity is space rather than weight", 30/ and relied on relative space to arrive at its allocation

27/ Orders 70-4-9, 70-4-10, April 2, 1970.
28/ Domestic Trunklines, Service Mail Rates, 21 C.A.B. 8, at 37 (1955); American Air. et al., Mail Rates, 14 C.A.B. 558, 571 (1951).
29/ Domestic Service Mail Rate Investigation, Order E-25610, August 28, 1967.
30/ Supra, note 27, mimeo op., p. 9.

of cargo capacity costs among the various types of traffic. Most recently, the Board has applied this method of relative space allocation in the Fare Investigation.

The types of aircraft which were included in the aircraft flight study underlying the Board's conclusions in the Nonpriority Mail Rates Case that today's aircraft are space, rather than weight limited, are similar to those being costed in this case. Under the circumstances, the evidence supports the finding that cargo capacity costs should be allocated on the basis of relative space, and, therefore, that the relative densities of the cargo traffics must also be reflected in the costing.

One of REA's major arguments against adoption of a space method of allocation is that combination aircraft cargo compartments and all-cargo aircraft are being operated at very low load factors and are seldom full. But neither a space nor weight method should be determined by actual load factors but rather by whether flights tend to use up space before they become weight limited. Actual load factors are not controlling where unused space, as well as used space, is being charged to the various traffics.

REA's support of load factors as the key element in the choice of a weight basis for allocation of costs to cargo traffics is considerably weakened by the fact that, like the other parties, it has allocated capacity costs between passengers and cargo in combination aircraft on a space basis despite the relatively low passenger load factors experienced by the air lines since 1969.

Nor is REA's contention that capacity costs are related to weight because the cost of moving aircraft is weight related any more persuasive. The evidence offered to sustain this allegation involved a computation that fuel cost was higher for an aircraft with belly pit loaded with high density surface mail than for one filled with lower density air express. While weight influences the cost of fuel, it is only one of the factors to be considered and, according to the record, has a relatively insignificant impact on operating costs as compared with other types of costs such as pilot pay and maintenance.

Upon consideration of the contentions of REA, there appears to be no persuasive evidence or argument to warrant reversion to the earlier relative weight method of allocation recently discarded by the Board as outmoded in view of the characteristics of jet aircraft.

Density weighting - As noted above, adoption of the relative space method of allocating capacity costs necessitates consideration of the densities of the several cargo traffics. To this end, the air lines undertook at the prehearing conference to have American, Eastern, TWA and United conduct a survey of the stowed density of air express at eight major terminals. The survey, conducted throughout one week in the latter part of November 1970, was designed to yield a maximum of eight stowed receptacles a day at each of the eight stations. The mean density of air express determined from all the observations was found to be 7.60 pounds per cubic foot. REA's separate survey of air express dockside density, completed in only two days, produced a weighted average dockside density of 12.54 pounds per cubic foot.

As a supporter of the relative weight method of allocation REA is opposed to inclusion of a density factor on conceptual grounds alone. But it also has other objections to the densities used by the other parties. Thus, it contends that there are no current density studies for any of the cargo traffics except air express, and that it would be a denial of due process to apply to this case either the old density data and weightings or the priority weightings used in the Nonpriority Mail Rates Case and earlier cases because it was not a party to those cases. Practical considerations of time and expense dictated the decision not to repeat density studies made in earlier cases and relied on by the Board. Although it was on notice from the outset of this proceeding that the other parties would avail themselves of the prior findings of the Board as to density and priority, REA did not attempt to provide any evidence in repudiation of those findings or to show the unreliability of the particular density or priority weightings used or to offer substitute weightings. It has simply opposed their use in any form. However, REA cannot now sustain its opposition to the procedure arranged at the prehearing conference without objection by any party, including REA. Since it has had ample opportunities to question the validity of the density and priority weightings in this case but failed to raise a timely objection, there has been no denial of due process. Under the circumstances, REA's objections are hereby denied.

REA has also criticized the way in which the air lines performed their density study, but these objections are hardly material. For example, they relate to disputed claims that some of the loading at

one station involved selection of pieces; that a particular scale at another station had not been recently inspected; and that a container was weighed with a knob stuck on the scale. These are insignificant objections as compared with the fact that REA measured dockside density rather than stowed density and deviated from the basis of the density tests for other classes of cargo conducted in prior proceedings and accepted by the Board. Clearly, it would be inappropriate to allocate express costs on the basis of the dockside density used by REA while allocations of other traffics are predicated on stowed densities.

In view of all of the foregoing, the mean density factor of 7.60 pounds per cubic foot, which represents the highest of the density factors determined by the carriers in their survey, is found to be supported by the evidence and is, therefore, adopted herein for determining air express capacity costs.

Priority weighting - The Board made clear in the Domestic Service Mail Rate Investigation, that it considers priority weighting an important element in allocating capacity costs:

> "The fact that there may be few instances in which freight or passengers have been offloaded to accommodate mail does not lead us to the conclusion that the priority accorded mail has no cost effect. It is not often necessary to offload other traffic, because the carriers have generally made adequate capacity available to accommodate all anticipated traffic, including airmail, which is accorded a traffic priority. That costs are associated with making this capacity available is indisputable. We believe that the various types of traffic should bear a share of these costs related to the priority given them . . . ." 31/

31/ Order E-25610, p. 6, August 28, 1967.

As explained in the Nonpriority Mail Rates Case, the purpose of priority weighting is:

> ". . . to determine the share of cargo capacity costs that should be borne by each type of traffic. Absent a priority weighting all types of traffic would bear a full share of costs. Basically, the weighting reflects a judgment as to the allocation of the costs of unused capacity. Therefore, to the extent that capacity need not be made available for a particular class of traffic nor be provided on an urgent or expedited basis, it appears that such traffic creates less costs than the traffic for which space must be made available, or which must be accommodated at certain times." 32/

Thus, the priority weighting recognizes the nature of the demands made by the several cargo traffics on both used and unused capacity.

The evidence in this case reveals how the priority with respect to air express operates. As a United witness testified, there is a policing system to enforce the priority, and the carriers have made adequate capacity available to accommodate the anticipated 110 percent of normal express volume along with baggage and air mail, the two other forms of priority cargo. In addition, certain flights which carry large volumes of mail and express are restricted against freight except on a space available basis.

Arguing that there is no evidence in the record that air carriers incur any additional cost as a result of the priority accorded air express, REA insists that once a piece of cargo has been stowed in an aircraft the priority to which it is entitled has been exercised and any cost effect of that priority has been felt. But the latter argument overlooks the Board's conclusion in the Domestic Service Mail

32/ Orders 70-4-9, 70-4-10, April 2, 1970.

Rate Investigation, supra, that it is "indisputable" that there are costs associated with making capacity available to accommodate all anticipated traffic including the cargo traffics accorded a traffic priority. The fact that, to REA's concern, none of the other parties which rely on priority weightings put a money value on the cost associated with the priority weighting simply bears out the Board's finding that this is a judgment factor. But the costs are there nonetheless, and must be accounted for, as the Board has repeatedly held. 33/

As for REA's contention that it is unfair to assign the same weighting factor to express as to baggage and air mail since express has the lowest priority of all, it is conceivable that gradations in the weightings to reflect the order of priorities assigned these cargo traffics could be adopted. However, there is no evidence in the record regarding a more precise priority weighting for express; accordingly, no attempt will be made to revise the priority weightings heretofore assigned baggage, air mail and express.

REA also complains that air express has become the traffic on which most of the shifting of costs from other traffic has been loaded. REA has described this as a shell game. But as REA's own figures show 34/, the claimed "shift" is predicated on a bootstrap argument. Thus, it compares what it calls "real costs", namely, costs based on revenue ton miles, with the Bureau assigned costs, and concludes that the 55 percent

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33/ Nonpriority Mail Rates, supra, pp. 14-16; Domestic Service Mail Rate Investigation, supra, pp. 6-7; Domestic Trunklines, Service Mail Rates, 21 C.A.B. 8, 37 (1955); and American Air. et al., Mail Rates, 14 C.A.B. 558, 572 (1951).

34/ See table on page 35 of the REA reply brief.

increase in express costs and 60 percent decrease in nonpriority mail costs demonstrate that the assignment of weightings is suspect. The comparison is inapposite mainly because the methods of determining the costs are substantially different. Moreover, the difference is rooted in a complex of findings made by the Board in prior cases as to how the cost of cargo traffics should be arrived at. While its revenue ton mile costs may be "real costs" to REA, unless the Board's determinations in the recent service mail rate cases are to be disregarded, REA's "real costs" are not consistent with either the nature of the cargo traffics or the way in which they are moved in air transportation. The recognized stowed density of nonpriority mail is 2½ times that of air express. Nonpriority mail moves on a space available basis as compared with express which has a priority over both freight and nonpriority mail. In sum, REA's comparison is wholly untenable.

Finally, although it appears that REA sees them as such, boarding priorities alone are not the reason for assigning a share of capacity costs to the various cargo traffics. As noted earlier, the priority factors are a judgmental recognition of the allocation of the costs of unused capacity as well as used capacity. These traffics should be charged with capacity costs as closely related as possible to their respective rights to demand the use of capacity.

Accordingly, in addition to the stowed density of 7.60 pounds per cubic foot found reasonable for air express, the priorities assigned to the various cargo traffics by the Board in the Nonpriority Mail Rates Case are found appropriate and are adopted herein.

Conclusion

In view of all of the foregoing and the evidence of record, it is found that, recognizing the ability of air express to meet a full share of costs and employing a relative space method of allocating cargo traffics adjusted to reflect density and priority weightings, $38,673,000 of capacity costs should be allocated to air express in 1969, and $35,622,000 in 1970 (Appendix D-1).

Noncapacity Costs

Noncapacity costs include ground handling costs, reservations and sales, advertising and publicity and other costs related to processing the traffic through the terminals. The parties' estimates of the air lines' noncapacity costs of transporting air express leave them split along the same lines as did their calculations of air express capacity costs. Again, REA is the lone proponent of a costing methodology which produces air-line costs equivalent to only a small fraction of the costs determined by the other parties. Thus, REA estimates that air express noncapacity costs were $3.6 million in 1969 as compared with the estimate of $20 million made by the participating air lines. The AFFA and Bureau calculations are closely similar, and about four times as high as the REA estimate. The wide spread between the REA estimate and the others stems not only from different costing methods, but also from opposing interpretations of the evidence as to the respective functions of the air lines and REA in the handling of air express.

Reservations and sales expense

The air lines claim $915,000 of reservations and sales expense on the basis of an allocation of such expense to air express in proportion to revenue after assigning all property commissions to freight. They acknowledge that express sales expense is somewhat less than freight sales expense in proportion to revenue. On the other hand, they assert that reservation expense is understated because the cargo reservation system is required by the priorities exerted by mail and express. The director of mail and express for American Airlines and the manager of mail and express system sales for United testified about some of the sales activity of their respective staffs on behalf of express. In the case of American the testimony indicated a staff of ten involved in the sale of mail and express and an opinion that 30 to 40 percent of their time was devoted to air express. The United testimony was somewhat less specific as to the air express sales efforts of United's cargo sales representatives. TWA's vice president-cargo marketing testified that at Kennedy airport TWA has three men involved with the sales side of mail and express and that at least one-third of their time is devoted to air express.

The air lines' consultant testified, "we know that the air lines spend money on reservations and sales for property. That is a reported figure, ..." True enough, but the record simply will not sustain a finding that $915,000 should be allocated to air express reservations and sales expense. Western is the only carrier which responded to the Bureau's information request addressed to all the carriers for reservation and sales expense assignable to air express service. The amount

was no more than $17,000, and it turned out to be assigned as commissions on property while the air line consultant directly concerned was not aware of any commissions on air express paid by Western or by any other carrier. Moreover, the allocation used by the air lines is based on the assumption that they spend as much for sales and reservations per dollar of express revenue as they do per dollar of freight revenue even though they admit express sales expense is relatively less. Nor is there any other evidence which supports a finding based on judgment as to what a reasonable allowance would be for reservation and sales expense. In view of the failure of the air lines to identify air express reservations and sales expense or to provide any reliable basis for a reasonable allocation of such expense, no such allowance will be made.

Traffic servicing expense

Traffic servicing expense is the single largest element of non-capacity costs, and, in this case, also the most controversial. The air lines estimate that their traffic servicing expenses totaled $18.2 million in 1969. This estimate derives from an allocation which starts with the total property traffic servicing expense of $326.6 million, deducts from that $48 million covering costs assignable to freight, and assigns 6.53 percent of the remaining cost pool to express on the basis of relative man hours.

The air lines maintain that express handling is materially different from freight handling and that these differences account for the high cost allocation to air express. As evidence of the costliness of handling express they cite the small volumes of air express, the need

to handle it on a priority basis and transport it quickly and frequently throughout the day between the air express facility and the aircraft parked at the passenger terminal. They consider the latter transfer procedure, rather than the loading and unloading function, as the most costly.

They list as additional cost disadvantages of handling air express as compared with handling freight the greater distance which must be traveled by air express because at major airports the express facility is located at some distance from the passenger terminal where the combination aircraft is loaded whereas freight is usually loaded right at the freight terminal; the inability of air express to share the economies of containerization; the need to load air express first and unload it last; and the fact that the air lines must handle the 39 percent of the air express movements which occur at the 423 airports where REA has no office or has personnel only part of the time, without a regular airport office.

The air lines stress, too, that the average pounds and pieces of air express loaded per flight are much smaller and, therefore, more costly to load than freight.

The air lines reject the use of traffic units such as tons enplaned, pieces or shipments for allocating air express traffic servicing expense. They prefer an allocation based on relative man hours because they consider it most closely related to the peculiar handling characteristics of express. Asserting that labor accounts for about 80 percent of total

traffic servicing expense, the air lines deem relative man-hours an allocation measure directly related to this major cost, and the only way to measure such a cost causative factor as the high frequency transportation of small quantities of express to and from the aircraft. They ascribe to it the further benefit of accounting for differences in density and priority so that no separate adjustments are needed to reflect them.

AFFA estimates the 1969 air-line traffic servicing expenses at $17 million. It allocates a portion of the total air-line traffic servicing cost pool as determined in the Fare Investigation to air express on the basis of the space method. In addition, it has applied the priority and density adjustments recognized by the Board in the Non-priority Mail Rates Case with respect to capacity costs.

AFFA is apparently much impressed by what it calls "the most startling revelation on this record", namely, the involvement of the air lines in the ground handling function for air express which it describes as "great" even at the 35 cities where REA has exclusive air stations. It concludes that since air express consists mainly of small packages handled unassembled in an expedited manner, air-line ground costs are very high. While it has used a different approach for costing the air lines' air express ground services, AFFA endorses the air lines' manpower survey as an allocation device. But it also urges that, in pricing the air lines' air express ground services, the results derived by the manpower study should be further increased to give full recognition to priority.

REA has arrived at its low estimate of $3.67 million of air express traffic handling expense by allocating the pool of ground-incurred costs on the basis of relative tons enplaned, weighted to reflect its consultant's judgment of the differential between the air-line ground servicing costs of freight for which the air lines are regarded as performing all functions, and express or mail for which they are regarded as performing only a minor part of ground functions. REA emphasizes that while the air lines do all the work for freight, for express they perform only the functions of loading and unloading the aircraft and of transportation between the REA facility and the aircraft. The consultant's weighting was based on his judgment that the air-line incurred traffic-related cost for a ton of express or mail is 25 percent of the average of freight, express and mail (FEM) cost per ton. In this way he determined that express costs per ton are 16.6 percent of freight costs. 35/

Referring to the provisions of the Air Express Policy and Operations Manual of the Joint Committee for Air Express, REA argues that the only responsibilities of the air lines for traffic servicing of air express are the receipting of the manifest prepared by REA, picking up and delivering air express at the airport office, and transfer to and

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35/ Because of a misapprehension as to the air lines' claim that they incur an equal share with REA of ground handling labor costs, REA has made an estimate that the air lines bear no more than 20.1 percent of the total ground costs. In REA's view the difference between its estimate and the air lines' would merely increase its own estimate of total air-line incurred ground costs of $3.67 million by $771,000. But REA's version is erroneous in that it involved a split between freight and air express costs, rather than between the air lines' and REA's labor requirements at the airport for air express. The air lines object that they do not equate the ground handling costs of air express and freight.

from REA tripper trucks at air-line airport facilities. At airports where REA does not have field offices, REA admits the air lines accept traffic from the public and perform the necessary related functions but contends that no more than four percent of total air express traffic is handled this way by the air lines.

The Bureau leans toward the REA version of how the air lines and REA divide the traffic servicing functions. It sees only a small portion of the total express traffic as being handled directly by the air lines with the shipper or with an interlining direct air carrier. It attributes most of the air-line cost of handling air express on the ground to the loading and unloading functions. And because express shipments are loaded and unloaded by hand, it considers the loading and unloading functions as primarily related to the actual physical pieces of cargo; therefore, it has concluded that pieces should be used as the basis for the allocation of traffic servicing expense to express.

By reference to certain TWA and American data, it has determined that 36 percent of the total traffic servicing expense pool 36/ is directly assignable to freight traffic and the remaining 64 percent is allocable among freight, express and mail on the basis of relative pieces. 37/ Including return and taxes, the Bureau estimates air-line traffic servicing expense in 1969 at $16.7 million.

36/ The Bureau used a FEM traffic servicing expense pool containing costs incurred by the air lines for receiving, documenting, accounting, warehousing, loading and unloading of cargo.

37/ The Bureau has eliminated the weighting in its direct exhibits for shipment costs which used tons as a proxy and has thereby increased the amount allocated in 1969 from $13.5 million to $13.8 million, before return and taxes.

AFFA is the only other party to accept the results of the air-line survey. It has been rejected by the Bureau, and challenged in almost every respect by REA which condemns it as erroneously conceived, statistically unreliable, built on hearsay and, accordingly, of no probative value.

Of the various allocation methods proposed by the parties, the concept of relative man-hours appears to be the best measure of the costs to the air lines of handling air express on the ground. Perhaps more important from the viewpoint of the air lines, it also has the appeal - as they have applied it - of yielding more air express traffic servicing costs than the traffic units of measurement, such as relative tons or pieces. Unfortunately, though sound conceptually, the relative labor method as designed and carried out by the air lines is too seriously flawed to be acceptable.

Specifically, the air lines have tried to estimate hours spent on express traffic by allocating man-days spent jointly on express and one or more other cargo traffics in the same proportion as man-days spent exclusively on express bear to man-days spent exclusively on express and one or more other cargo traffics. Thus, the computation is based on the assumption that joint labor man-hours should be assigned by a percentage distribution of the exclusive manpower assignments. However, there was no evidence whatever to relate the method by which the assignment of joint hours is made to express to the assignment of exclusive hours. Any employee who spent some part of his shift, no matter how insignificant, on air express was counted

in the jointly assigned pool in the same proportion as the allocation of exclusive assignments. Any errors of exclusive assignments were magnified through the assignment of joint hours. This in itself is found to be a fatal defect in the design of the survey.

In addition to the above fault in design, the execution of the survey was also materially defective. For example, the survey gave no instructions as to what part of an employee's time had to be taken up with a particular task before he could be reported as jointly assigned. Besides, the manpower assignments were reported only by shifts, and the reporting assumed each shift to be eight hours. Accordingly, a part-time employee was credited with a full shift, and one who worked an hour or two overtime was credited with two full shifts. The instructions also permitted the double counting of express from interconnecting flights.

In the course of cross-examination a substantial number of other errors of execution were disclosed. These reflect mainly the lack of controls over the conduct of the survey in the field. In scores of station reports, there were such errors as failing to assign cargo employees to the other cargo traffics besides express. There were a number of duplicate counts of employees, and overstatements of the number of employees actually working at some of the stations. The most glaring example appears to be the report of Delta Airlines at Atlanta showing over 600 cargo handlers for each of the seven days of the survey week. Again, the report for Delta at Detroit lists 32 cargo handlers as assigned exclusively to express, while only 15 men were

assigned to handle all freight and mail and most baggage.

The list of errors of various kinds is very long, enough in fact, to draw the admission of the air lines that errors were made in the reporting and tabulation of man-hours. Apart from reporting errors on the underlying forms, they admit two errors in principle. The first is the assignment of all man-hours at smaller stations to property and none to passengers. They would have all such reports eliminated. The second error admitted was the failure to assign a portion of property man-hours to baggage at some stations. This would require a reallocation of man-hours to recognize the baggage function. Still, the air lines are satisfied that the very large size of the sample they conducted offsets the errors to a considerable extent. Since only six percent of the stations surveyed were affected by the errors uncovered, and these related to only five percent of the express handled during the period tabulated, they contend that the survey is reliable enough. On the other hand, it seems more reasonable to conclude from the evidence that the errors actually identified were indicative of a number of other errors of like kind which were never actually picked out of the record for lack of time. Therefore, the percentage of express traffic affected by errors was probably greater than that claimed by the air lines. Moreover, the air lines have failed to address themselves to the basic flaw in the design of the survey. In view of the foregoing and all the evidence of record, it is found that the air lines' manpower survey is unreliable for the purposes of the intended allocation.

No less questionable is the conclusion of REA's consultant that, in

his judgment, formed from his observations of cargo handling at Washington National Airport, the air lines' handling of express amounts to only 15 percent of the workload needed to handle freight. REA insists that its consultant has made allowances for costs besides loading and unloading - e.g., transfer to and from the aircraft, documentation, etc. - but the cost he ultimately determined is only $17.98 per ton or 16.6 percent of the freight cost. On the other hand, according to a United engineering study which the REA consultant referred to favorably, at O'Hare Airport the ground cost of handling an enplaned ton of express in 1970 was $68.94. It appears that REA has reached such low express ground handling costs by relying on various statistical studies which relate to the handling of freight on all-cargo aircraft at the freight terminal which have no relation to the problem of the ground handling expenses of air express.

Until the Bureau first proposed allocation by pieces in its brief, it had followed the same allocation method it had supported in the Nonpriority Mail Rates Case; that is, it distributed total FEM costs by relative FEM tons. It shifted to the piece method because it considered it the best way to measure the loading and unloading function which it views as the main source of air-line ground handling costs of air express. However, the Bureau's version ignores the objections raised by the Board to a piece-weight method urged by TWA in the Domestic Service Mail Rates Investigation and the Nonpriority Mail Rates Case. The Board rejected the TWA proposal, giving as one reason the failure of TWA to offer evidence showing the relationship of pieces

to pounds, and how costs respond to the two factors. By switching from a relative tons enplaned method to a piece method after the close of the hearing in this case, the Bureau foreclosed an examination on the record of the merits of its new proposal, and, at the same time, left the record bare of any evidence as to how its piece method reflects the cost causative factors of air-line express ground handling. Thus, there is no evidentiary support for the Bureau's claim that its new method is a more reliable measure of traffic servicing expenses than relative tons enplaned which has been the traffic unit of allocation long accepted by the Board.

The Bureau's method of arriving at the pool of common expenses also represents a departure from its original position in the case. This departure is predicated on exhibits submitted by American and TWA in the Fare Investigation. Without attempting to trace here the intricacies of the Bureau's handling of those exhibits, suffice it to say that because it has regarded the air lines' cost of handling express traffic as largely a loading and unloading function, it has isolated certain costs which it deemed to be freight costs and determined that these were 36 percent of the loading and unloading costs. But instead of applying that percentage to loading and unloading costs only, it applied them to all Traffic and Service Expense - Property. This results in an overstatement of the amounts assignable directly to freight since loading and unloading costs are but a portion of the total ground handling costs. If the Bureau's assignment of the freight share of costs were applied to total ground costs, the assignment to freight would be

substantially less and the allocation of ground handling costs from the FEM pool to air express considerably more than the Bureau computed.

Since both the Bureau's piece method and the air lines' study of relative manpower have been found unacceptable, the best available alternative for allocating ground costs to express is the more conventional traffic unit of relative tons enplaned. The latter, of course, is superior as a unit of measurement to shipments which have more bearing on documentation than loading and unloading or transfer functions, which figure so prominently in air-line express handling.

Reliance on relative tons enplaned assumes that the various cargo traffics have the same cost characteristics so far as ground handling is concerned. All the parties recognize significant differences between the air lines' express handling and their freight handling, however, and have tried to reflect them in their methods of allocation. But they disagree profoundly as to what the differences are and how they affect the ground costs of air express.

The record as a whole supports the finding that there are countervailing influences on the air line ground handling expenses relating to express as compared with freight. One set derives from REA's responsibility for such functions as documentation, sorting, forwarding, routing, and inbound processing of express. Of course, these differences tend to reduce the air lines' express costs as compared with their freight handling costs. This is not to deny that the air lines do perform such functions in certain restricted situations, and that the record indicates that approximately four to eight percent of all express handling is carried out by the air lines where REA has no facilities.

The second set, which make express more costly to handle than freight, includes the need to handle the relatively small pounds and pieces of express as compared with freight, the unsuitability of containerization, the longer distance between aircraft and terminal facility as compared with freight, and the need to make more frequent trips between the aircraft and express facility to expedite service.

The third factor which must be considered is the effect of priority handling of air express on costs. While REA refers frequently to its efforts to speed the handling of air express and to the premium nature of the service, it fails to acknowledge a similar burden on the air lines or the fact that such priority handling tends to made air express ground handling more costly than that of air freight. The frequency of runner trips between the aircraft and the express facility is directly chargeable to the expedited handling of air express, and this is one of the more important labor expense items incurred as part of the traffic servicing function.

As a matter of judgment, and without attempting to assign a specific weighting to the priority accorded the ground handling of air express, it is apparent that whatever cost benefits accrue to the air lines because initially all documentation and routing services are performed by REA, the off-setting additional costs they incur in handling air express as compared with air freight because of priority and the physical problems of transferring air express between the aircraft and terminal facility, etc., tend to equalize the ground handling costs of the two traffics. Accordingly, it is found that relative tons enplaned, without

weighting to favor either air express or air freight, is a reasonable and equitable unit for allocating traffic servicing expense from the FEM pool to air express. As shown in Appendix D-2, by this method, total noncapacity costs in 1969 are found to be $15.5 million before taxes and return, and $18.4 million including provision for these items. After accounting for the decline in express volume in 1970 as compared with 1969, and including the 4.6 percent cost escalation factor computed by the air lines, which is found reasonable for this purpose, the examiner has determined the air line 1970 noncapacity costs to be $14.6 million before return and taxes, and $17.3 million after provision for these items. 38/

The above finding is compatible with the Board's treatment of the noncapacity costs of mail in the Domestic Service Mail Rate Investigation and the Nonpriority Mail Rates Case where the Board equated such costs with the costs of the other cargo traffics, and allocated ground handling costs to mail according to relative tons enplaned. The REA weighting of relative tons in this case is completely at odds with the conclusion in the mail rate cases as to the costing of traffic servicing functions.

The Bureau's failure to consider priority in the costing of air line express ground handling expenses is based on the Board's treatment of noncapacity costs in the Nonpriority Mail Rates Case which it

38/ The following table compares the estimates made by the parties, without provision for return and taxes:

	($000)
	1969
AFFA	$14,015
Air Lines	20,098
Bureau	13,780
REA	3,673

apparently deems controlling here as well. There the Board sustained the examiner's refusal to include a priority weighting for noncapacity costs as distinguished from capacity costs, because "there are no unused noncapacity costs to be allocated nor is there any question of aircraft space availability." However, the two cases are distinguishable, for it is in the light of the instant record that the examiner has found consideration of priority warranted in the determination of air express noncapacity expenses.

Thus, the record here, unlike that of the Nonpriority Mail Rates Case, contains definite evidence of the cost effect of priority on the air lines' ground handling of air express. As between freight and air express, the record demonstrates that the latter is more costly insofar as it has first call on the common pool of labor and facilities, and uses it with greater frequency. Therefore, some recognition of the cost effect of priority on air-line noncapacity costs of transporting air express is justified by the evidence, although not necessarily the precise kind of weighting followed by the Board in determining air-line capacity costs.

It is significant that, as shown in note 38, supra, whatever the method of allocation used - the air lines' manpower study, AFFA's space method, the Bureau's pieces, or the examiner's revenue tons enplaned - the final result is substantially similar provided the relevent factors, such as priority, are included in the technique. Finally, it is apparent that judgment, rather than a refined process, must be the ultimate determinant of noncapacity costs, as well as of so many other cost issues in this case.

THE REASONABLENESS OF THE PROPOSED RATES

The Support for the Interim and Suspended Tariffs

Although the interim and suspended tariffs are sometimes referred to herein as the "proposed tariffs", in fact, at this juncture of the proceeding they lack effective support. Instead, REA now espouses an "ideal" tariff with rates intended to reflect REA's costs as shown in its evidence. This tariff is designed to provide the air lines a ton mile yield from express which bears the same relationship to air-line express costs as air-line air freight yields bear to air freight costs. It also increases rates somewhat above the interim tariff levels on short-haul, lower weight traffic, and decreases the rates for longer haul, higher weight shipments below the rate levels in both the interim and suspended tariffs. The net effect is that REA projects less total revenues from its "ideal" tariff than would be attainable from either of the tariffs under investigation.

On the other hand, the air lines have submitted a proposed tariff in their brief which they characterize as based on the cost data in this record, and which is designed to produce an 18.2 percent increase over the interim tariff rate levels. Thus, without expressly conceding the unreasonableness of the tariffs under investigation, the air lines have abandoned them for a "cost-oriented" tariff.

In view of the foregoing, it is found that the carriers which filed the tariffs under investigation have failed to discharge their burden of going forward with the evidence to support them, and have, in fact, propounded and supported different tariffs.

The Proposed Rates in Relation to Total Costs

The standard normally applied by the Board in determining the reasonableness of rates is whether they are reasonably related to the actual costs of the services provided. This test is applied to rates established for the basic services of the carriers. It is not essential that rates for any type of traffic or service cover fully allocated costs at all times but they must be reasonably related to costs at all times. 39/ That is, they must be high enough to pay their own way eventually on a fully allocated cost basis. 40/

Whatever the yardstick used to measure REA's costs - the calculations of the air lines, of REA, of the Bureau or of the examiner - if the interim tariff had been in effect for the entire year 1969 or the entire year 1970 it is clear that REA would have earned a profit well in excess of any reasonable requirements. According to the costs determined by the examiner, under the divisions then in force, the interim tariff rates would have enabled REA to earn a profit, after provision for return and taxes, of $19.3 million in 1969 and $11.3 million in 1970 (Appendix B-2).

When the revenues afforded by the interim tariff in 1969 and 1970 are compared with the total costs of air express service in those years

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39/ Air Freight Rate Investigation, 9 C.A.B. 340, 344 (1948).

40/ Pittsburgh-Philadelphia No Reservation Fare, 34 C.A.B. 508, 514 (1961).

An exception to this test, of only passing interest here, is the profit-impact test used by the Board to determine whether, even though a rate does not meet full costs, it may be found reasonable where it improves the net profit position of the carrier. This test is applied to promotional rates designed to attract additional traffic that would not move at normal rates. Trans World Airlines, Inc., Rates for Phonograph Records, Order E-22935, November 26, 1965.

as found by the examiner, the apparently excessive returns available to REA from such rates are shown to be attributable to the divisions between REA and the air lines. Thus, as found in Appendixes B and C, the total air express revenues of $120.4 million available under the interim rates in 1969 would have exceeded the total reasonable costs by $3 million or only 2.5 percent. Similarly, the 1970 revenues of $109.5 million afforded by the same rates would have fallen short of total costs by only $1.2 million or 1.1 percent. In both years, however, the suspended tariff rates would have far exceeded the carriers' total costs of providing air express service, to the extent that they would have earned net income, after provision for return and taxes, of $19.5 million in 1969 and $13.6 million in 1970 (Appendix B-2).

The closeness of the above total revenues produced by the interim tariff and the costs found reasonable herein suggests that, overall, the interim tariff rates may be reasonably related to costs. However, as shown in Appendix G-1, at the lower weights and shorter distances the interim rates fall substantially below the costs and rates found reasonable herein. On the other hand, the suspended rates at representative lower weight and shorter distance brackets are higher than reasonable costs and rates in a substantial majority of the examples shown. At the other end of the mileage scale the pattern is reversed; that is, the interim and suspended tariff rates are uniformly in excess of the costs and rates found reasonable for high weight and long distance traffic. 41/

41/ The examiner's computation of REA's air express costs in 1970 by weight is provided in Appendix C-3. The corresponding computation of the air lines' costs for air express shipments by weight and distance in 1970 is contained in Appendix D-4.

These discrepancies are not surprising inasmuch as the tariffs heretofore filed by REA and the air lines have been the product of negotiation between them. It appears that pursuant to the arrangement worked out between the two sides as formalized in the Air Express Agreements, costs were secondary to pricing and revenue considerations in their formulation of tariffs.

In view of the foregoing and the evidence of record, it is found that the interim and suspended tariff rates are not reasonably related to the costs of providing domestic air express service.

Diversion

AFFA has been concerned throughout that the reduced rates in the higher weight and mileage brackets of the tariffs under investigation will attract air freight forwarder traffic, "all other things being equal". It estimates that the forwarding industry could suffer diversion of 20 percent of industry shipments amounting to $75 million in revenues under the interim tariff and 35 percent or $131 million in revenues under the suspended tariff. It argues that REA is providing for the first time a "supermarket service" covering all weights and distances and can, therefore, be expected to capture all of the traffic in many instances.

Based on fourth quarter 1970 results alone, AFFA argues that after the inauguration of the interim tariff total air express traffic volume has held up firmly while that of the air freight forwarders has declined, evidence which it interprets as proof of the diversionary effect of the reduced interim tariff rates. But the traffic and revenue reports which

REA has been filing on a monthly basis, as directed in the supplemental prehearing conference report, disclose that air express volume has been continuing to decline despite the rate reductions (See Appendix I). Thus, air express shipments during the year ended September 26, 1971, fell to 6.6 million as compared with the 8.8 million shipments transported by the carriers in calendar year 1970.

The data covering the first full year of operation under the interim tariff also fail to substantiate AFFA's fear that the rates would bring about a significant change in the air express traffic mix. The following summary indicates only a minuscule shift in the composition of air express traffic since the inception of the interim tariff:

	December 29, 1969-September 27, 1970	September 28, 1970-September 26, 1971
Average weight per shipment	27.02 pounds	26.85 pounds
Percent distribution of shipments:		
1 - 100 pounds	96.13 %	95.82 %
Over 100 pounds	3.87	4.18
TOTAL	100.00 %	100.00 %
Less than 1,000 miles	96.25 %	96.45 %*
1,000 miles or more	3.75	3.55 *
TOTAL	100.00 %	100.00 %*
(Shipments over 100 pounds and 1,000 miles or more, as a % of total)	(.98 %)	(.92 %)

*Through March 28, 1971 only.

In view of the foregoing, it is found that the rate reductions instituted under the interim tariff at the higher weight and longer haul brackets have not diverted any material volume of air freight traffic from the forwarders to air express. Under the circumstances, there is no indication that even the greater reductions at the same weight and mileage brackets of the suspended tariff would in fact have a substantially adverse impact on the freight forwarders. Accordingly, there is no evidence that the rates under investigation have been adverse to the air freight forwarders.

Conclusions

In view of the above findings that the interim and suspended tariff rates under investigation herein are not reasonably related to the costs of domestic air express service, it is further found that they are unjust and unreasonable and, therefore, unlawful. Accordingly, pursuant to the Board's orders of investigation, lawful rates must be prescribed. On the basis of the costs of providing domestic air express service in 1970 found reasonable herein as shown in Appendix E-1, the lawful rates to be prescribed are those set forth in Appendix E.

The above prescribed rates, except at the five and 300 pound brackets, range up to 11 percent less than the interim and suspended tariff rates at equivalent weight and mileage brackets at scale 15 and above. As indicated, the interim tariff rates have had no materially adverse effect on the traffic of the air freight forwarders, even though, for example, the charge for a 100 pound shipment is 19 percent below the previous rate. The failure of air express traffic to respond significantly to such

reductions indicates that the demand for higher weight and mileage air express service may be price inelastic, and gives no cause to anticipate that further reductions up to 11 percent at higher distance scales will result in significant diversion from air freight forwarder traffic.

In view of all of the foregoing, it is further found that the rates providing for additional revenue of approximately $1.00 per shipment (exclusive of shipments of live animals and birds) allowed REA by Board Order 71-11-98, effective November 29, 1971, are not reasonably related to the costs of such shipments. Accordingly, these rates are unjust and unreasonable, and, therefore, unlawful.

THE RATE STRUCTURE

The Parties' Proposals

REA's new management, which took over beginning in 1968, considers the express movement of small shipments by air to hold the greatest and fastest potential for the company. It is convinced that REA should specialize in small shipments; that air express could be expanded to attract traffic now moving by surface; and that with a proper sales effort REA should now be carrying 15 million shipments a year at a profit rather than the less than 10 million it has been carrying recently. According to management, the two barriers to REA's profitable growth have been the air express rate structure, and the divisions of revenue between REA and the air lines. It considers the rates for longer hauls and higher weights far too high and for short-haul and low weights too low, and as not covering costs so that over 50 percent of air express shipments move at a very low and unprofitable minimum charge. Management alleges this analysis led to its filing the two tariffs under investigation, but that it really prefers the two "ideal" tariffs

introduced as rebuttal exhibits in this proceeding. REA regards them as "ideal" because they are alleged to offer air express users a realistic level of rates and charges based on REA's and the air lines' costs, that is, much lower total user costs than either the interim or suspended tariffs reflect.

Evidently, REA considers one of these tariffs more "ideal" than the other because it incorporates management's tenet that air express rates should give the air lines a ton mile yield from express which bears the same relationship to air-line costs for carrying air express that air-line air freight yields bear to air-line air freight costs. The proposed minimum charge in both tariffs is $9 for shipments up to five pounds at all mileage brackets. The preferred "ideal" tariff has been constructed on the basis of the costs for REA of $67.5 million determined by its consultant, Mr. Fauth, plus air-line costs of 17.5 cents per ton mile, derived from applying the above revenue-cost relationship. In 1969 the latter ton-mile rate would have meant $19 million of air express revenues for the air lines. Thus, REA has opted for rates which would have produced revenues of $86.5 million in 1969 as compared with the actual total air express revenues of $98 million and its own receipts of $58.3 million.

The other "ideal" tariff is based on the same estimate of REA costs made by Mr. Fauth plus air-line costs of 25.62 cents per ton mile or $28 million for 1969 as estimated by Mr. McIntosh. The latter tariff assumes that air express will meet its full share of belly cargo costs and earn an eleven percent rate of return for the air lines. However,

neither of the "ideal" tariffs provides for a return on investment for REA, a fact which REA's Vice-President-Terminal and Marketing Services admitted made them less than "ideal".

REA asks the Board not to prescribe the precise air express tariff structure. If the Board sets the maximum amount of the air lines' divisions, REA sees its own costs as a floor, and competition from air freight forwarders as a ceiling on air express rates. It wants freedom to act within these parameters and believes that it can open up new markets and divert surface express traffic to air to the benefit of the public and the air lines.

To the air lines the paramount result of this case should be a rate structure which permits air express to assume a fair share of airline costs. Realization of this goal, they assert, would bring an increase in express rates to the public and in the division received by the air carriers. They also maintain that the current rate structure is not related to the cost characteristics of air express but that at virtually every weight and distance bracket a substantial gap exists between revenues and costs.

The air lines also emphasize that raising express rates to conform to costs would not impair the competitive position of air express vis-à-vis other property services because in their view air express rates are low in comparison with the rates for other property services.

As one means of insuring that air express assumes its fair share of allocable costs, the air lines favor the elimination of weight breaks over 100 pounds because they believe the evidence indicates that they

reduce revenues. With a minimum charge of $8.80, the air lines' tariff includes significant revenue increases in the lower weight brackets and also in the higher weight brackets at shorter distances.

If the interim tariff had been in effect during 1970, air express revenues would have totaled $109.5 million; on the other hand, if the tariff proposed herein by the air lines had been in effect that year, the revenues would have been $128.2 million, an increase of 17 percent.

AFFA would eliminate all proposed reductions in the interim and suspended tariffs and boost any proposed rate increases to meet what it regards as compensatory levels. It is particularly critical of any reductions at the greater weights and distances.

The Bureau proposes minimum charges for domestic transportation as low as $7.50 for shipments weighing 15 pounds or less at the lowest scale as well as charges which cut across several weights and distances increasing by scale to as much as $11.55 at scale 29. The Bureau admits that in some cases the minimum charges are in excess of the average shipment costs and in others are less than costs but claims that on the overall the minimum charges will provide revenues covering related costs.

The Bureau's proposed tariff structure is to be compared with the historic and current practice of an across-the-board minimum charge. Prior to the interim tariff there was a minimum charge of $8.00 applicable to all shipments weighing 15 pounds or less moving at distances up to scale 10. The interim tariff provides for a minimum charge of $8.50 for all shipments weighing 12 pounds or less moving at distances up to scale 7.

For shipments weighing 16 pounds or more the Bureau would have the rate structure devised according to a formula which provides for a shipment charge of $5.40 plus 12 cents per pound plus (one cent per pound times the applicable scale or mileage divided by 100). This formula is the product of a regression analysis of the average of fully allocated costs and expenses before return and taxes at representative weights and distances.

Conclusions

In the past minimum charge air express traffic has consistently been an important part of air express business. In 1969 over half the general commodity air express shipments weighed less than 15 pounds, 41 percent less than ten pounds, and 23 less than five pounds. It is also noteworthy that in 1969 almost two-thirds of air express revenues were received from shipments which moved a thousand miles or less.

Where, as here, the lawful rates have been pegged to fully allocated costs, including return and taxes, provision in the rate structure for a minimum charge should also be cost oriented. Thus, the $8.22 cost determined herein for shipments of five pounds at distances up through two hundred miles is found to be a reasonable base for the minimum charge. Therefore, all shipments weighing five pounds or less moving at distance scales 1 and 2 will be subject to a minimum charge of $8.22. In addition, however, in view of the significant role traditionally played by minimum charge air express traffic, it should be left to the carriers to decide whether good business practice warrants adoption of a minimum charge of $8.50 per shipment for all shipments weighing ten

pounds or less moving at all distances up through scale 10. Such an extension of the minimum charge is found lawful if made applicable to all such weights and distances. The charge appears to be reasonably related to the costs of such shipments, inasmuch as it will provide revenues compensating overall for related costs by balancing revenue deficiencies existing in some weight and mileage brackets with overages in others.

In view of the foregoing it is found that the lawful rate structure should be bottomed on an $8.22 minimum charge applicable to all shipments weighing five pounds or less moving at scales 1 and 2; provided, however, that if REA and the air lines concur in the Air Express Agreement that air express traffic, sales, or handling will be improved thereby, they may adopt a charge of $8.50 as the lawful minimum for all shipments weighing ten pounds or less moving at all distances up through scale 10. 42/ As shown in Appendix F, these minimum charges are well below the rates for competitive services such as the rates of the air carriers for air freight, the air freight forwarders, and surface express at comparable weights and distances.

The $9.00 minimum proposed by REA for all shipments up to five pounds at all mileage brackets is found to be excessive in relation to costs as found herein for most mileage brackets. At the same time, the reduction in the minimum charge to $7.50 proposed by the Bureau would penalize the carriers in the light of their costs as determined by the examiner.

42/ The revenues estimated from the rates found lawful herein do not reflect the effect of an agreement by the carriers to impose an $8.50 minimum charge.

Since a reasonable relationship to costs is found to be pivotal in formulating a sound air express rate structure, starting with the $8.22 minimum charge, the lawful rates should track costs across the rate spectrum. On the basis of the costs found reasonable herein, this technique defines a rate structure which will not only eliminate the unprofitable minimum charges REA complains of, but will also enable air express to be fully competitive in the long haul and high weight brackets. Thus, REA should realize at least two of its goals in this proceeding, even as the air lines achieve their primary aim to have air express rates cover the air lines' costs.

REA and the air lines together incurred $101.6 million of operating expenses to provide domestic air express service in 1970. 43/ A full allocation of costs, including return and taxes, brings total costs for the service up to $110.7 million. This difference of almost ten percent between operating expenses and total costs, which the Bureau also found when costing 1969 operations, prompted it to recommend that the carriers be permitted to file air express rates within a range five percent above or below the rates derived from its formula.

Above the minimum charge, the rates prescribed herein are lawful maximum rates, since they reflect full costs, including tax and return, as closely as possible. Value of service or similar considerations do not warrant a rate increase above fully allocated costs of moving a particular traffic. 44/ Therefore, the Bureau's proposal for flexibility which would allow the carriers

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43/ In the same year, as found herein, REA and the air lines shared transportation costs in the ratio of 55:45, respectively.

44/ Locklin, Economics of Transportation, 6th ed., p. 151; Bonbright, Principles of Public Utility Rates, (1961), p. 383.

to file rates five percent a[illegible] the Bureau's formula-determined rates is unsuited for adoption by the examiner, as is REA's request for authority to charge as high as the level of any competitor's rate if, to do so, would mean a rate in excess of full costs.

Considering the substantial spread between the five and ten pound rates found reasonable herein and the air freight forwarder rates at comparable weights and distances which ranges upwards of 25 percent, using competitors' rates as a ceiling would permit radical departures from cost-related rates. On the other hand, in the light of the continuing, recent downward trend of air express traffic it is doubtful that the carriers could reasonably hazard charges materially higher than those found lawful. At the same time, the plentiful evidence of REA's resolve to increase charges for low weight, short distance shipments minimizes and probably eliminates entirely the chance of the carrier's reducing charges for such shipments below the cost-based lawful rates.

At the other end of the weight and distance scales, the evidence is also abundant that REA is keenly interested in penetrating the market which has so far remained aloof to its service. Therefore, there appears to be a risk that if the lawful rates do not attract higher weight and long distance traffic, REA will press for further rate reductions which would, of course, mean breaching the cost floor it relies on in its argument for rate structure flexibility. To be lawful, any such further rate reductions would have to satisfy at least the usual standards of justness and reasonableness, namely, that (1) they be

reasonably related to costs and (2) they will not inflict undue financial harm on either the air express or competitive carriers.

THE DIVISIONS OF AIR EXPRESS RATES AND CHARGES

The Reasonableness of the Divisions Under Investigation

As already noted, REA considers the existing divisions to be one of the two main reasons for its current financial plight. REA's president gave as an example of inequity the fact that in 1969 REA retained only $59.9 million of the almost $100 million of air express revenues from about ten million shipments. He described such revenues as less than REA's out-of-pocket costs. Such considerations have spurred REA to try to reduce the air lines' share of express revenues to an amount more closely related to air-line yields on air freight. 45/ The carrier's rationale is that it should not be at a competitive disadvantage as against air freight and the air freight forwarders by having to pay proportionately more for air transportation.

The air lines complain that the increases in express revenues in recent years have found their way to REA, not to the air lines. They allege that although net air-line express revenues in 1966 were somewhat greater than such revenues in 1970, total air express revenues had increased from $87,514,000 in 1966 to $101,360,000 in 1970. The air lines also point out that in 1966 REA received $5.32 per shipment after payment to the air lines, and that by 1970 this payment had

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45/ REA has portrayed the formula for determining the air-line share of revenue as follows:

$$\frac{\text{air-line air freight revenues}}{\text{air-line air freight costs}} = \frac{\text{air express revenues}}{\text{air-line air express costs}}$$

increased by 38 percent to $7.32. On the other hand, over the same period the air lines' revenue per shipment increased only 27 cents, or one-half of one percent. As a result, they calculate that their share has declined from 42 percent in 1966 to 36 percent in 1970 and that the solution is to increase the rates payable to the air lines. Having determined that in 1970 the interim tariff would have produced a $5.9 million profit for REA above a return requirement of $2.6 million, the air lines contend that the issue is not whether REA is realizing too little under the interim tariff but whether it is realizing too much, and that this tariff is the maximum it can fairly be allowed.

The main thrust of the air lines' position on divisions is that, like the express rates themselves, they should be cost oriented. They criticize the divisions under the interim tariff as being only generally related to REA's cost structure, and completely unrelated to their own.

To AFFA, REA's divisions under both the interim and suspended tariffs discriminate between the different classes of traffic. Thus, REA's share from 25 pound shipment traffic under the interim tariff starts at $6.10 at 100 or 200 miles and increases about one-third to $9.65 at 2,900 miles. REA's share doubles at 100 pounds from the lowest to the highest mileage block. But, then, at 300 pounds REA's share drops to the one-third increase that occurs at the 25 pound shipment level. In addition, under the interim tariff 200 and 300 pound shipments produce widely varying shares up to 1,900 miles. Thereafter, the REA share for both weights is the same up to 2,800 miles, where a second breakpoint begins.

AFFA is less disturbed by the air-line divisions which it regards as designed to follow air-line costs. Yet, at the same time, it deems the level of the air-line divisions substantially below revenue needs.

Like the air lines, the Bureau wants divisions to be cost related. In its view, the direct air carriers incur more than 50 percent of the costs of air express service, but have been receiving only 40 percent of the revenues. This means air-line passengers are required to absorb the air express costs in excess of air express revenues, to the detriment of the public interest. Since the divisions do not bear a reasonable relation to the costs of either REA or the air lines, the Bureau argues that they are unjust and unreasonable and should be disapproved.

It is clear from the foregoing and the evidence of record that none of the parties supports the divisions of rates and charges previously in effect, or proposed in the interim or suspended tariffs. All except REA advocate divisions which are cost related. As explained below, the REA air express-air freight revenue-cost formula for determining the air-line revenue share is unacceptable. The evidence clearly supports the finding that just and reasonable air express divisions are reasonably related to costs. As shown in Appendix E-1, cost-related divisions avoid the haphazard and irrational apportionment of revenues which AFFA criticizes as typical of the interim tariff divisions. By contrast, cost-related divisions conform to a consistent and logical pattern. The evidence supports the further finding that the divisions proposed in the tariffs under investigation are not reasonably cost-related and are therefore unjust and unreasonable (See Appendix H).

The Just and Reasonable Divisions

The air lines allege that the increased rates they propose in their brief will restore more balance to the divisions. That is, they would share 47.7 percent of express revenues while REA would receive 52.3 percent.

Applying its air express-air freight revenue-cost relationship formula to 1969 results on the basis of the by-product costing method, REA has ascertained that air-line freight revenues were 82.8 percent of costs, and that, based on REA estimates of air-line costs of providing air express service, the fair share of air-line express revenues would have been $17.8 million. This is to be compared with the $60.4 million of total air-line costs which the Bureau would recognize in 1969, the costs of $62.5 million which the air lines claim for themselves in that year, the costs of $30.2 million suggested by the calculations of REA's consultant, Mr. McIntosh, and the total of $58.5 million found reasonable by the examiner.

REA's formula for fixing the air-line revenue share is patently unreasonable. As the Board stated in an earlier case when it rejected an analogous Bureau argument that REA excess valuation and C.O.D. charges should be reduced to the level of the excess valuation and C.O.D. charges for air freight imposed by the air lines at that time:

> "... . we do not believe it appropriate to place sole reliance on a comparative technique under the circumstances present here. The Board has not yet concluded any formal proceeding directed toward ascertaining the fair and reasonable level of rates for accessorial services whether performed by REA or by the direct carriers engaged in the air freight business. As Bureau Counsel has . . . argued, the Board's failure to suspend or investigate a tariff rule does not constitute a determination that the rate or practice embodied therein is lawful. Under these circumstances we cannot determine that the accessorial charges for freight would be fair and reasonable accessorial charges for express. . . ." 46/

46/ Railway Express, Increased Charges, 27 C.A.B. 542, at 545 (1958).

Since the Board has not yet concluded any formal proceeding to ascertain the fair and reasonable level of general commodity freight rates, the rates now on file cannot be regarded as a benchmark to determine the fair and reasonable divisions as between REA and the air lines.

To reduce the air-line share of revenues on the basis of a comparison with air freight ton mile yields alone, as urged by REA's president in the name of equity, would actually lead to injustice in view of the characteristics of the two traffics, which are masked by reference to only this one unit of measurement. Thus, the effect of the very pronounced differences in average size of shipment and length of haul of express and freight is critical to a comparison. The record affirms that the air-line yield from freight is substantially greater than from express for shipments of comparable size and distance.

In view of the foregoing, REA has failed completely to demonstrate the propriety of authorizing the air lines' division of air express according to the loss situtation of air freight, let alone that it is preferable to a division related to the costs of air express service. 47/

According to the Bureau's calculation, REA accounts for approximately 48 percent of the average of fully allocated costs and expenses of air express operations, and the air lines for the other 52 percent. In its main brief the Bureau suggested that the Board require that each rate and charge under the general commodity tariff be divided 48-52 percent

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47/ One test of the fairness of REA's proposed division is whether REA would also recommend it if air freight revenues were substantially in excess of costs. For that matter, REA's president would not accept a corollary of its proposal, namely, that REA should have losses in its air service comparable to those it has had from surface operations.

between REA and the air lines, respectively, recognizing that there would be some instances of excess, and others of insufficient revenues. Nonetheless, it was satisfied that on an aggregate basis for a given period the respective carriers' costs and revenues would balance out. However, on reconsideration in its reply brief, the Bureau has argued that the need of each carrier party to the Air Express Agreement may be better protected if REA and the air lines are permitted to work out between them the divisions of each air express rate and charge in the rate structure so long as the aggregate revenues received by REA and the air lines are shared 48-52, respectively.

The air lines object to the Bureau's proposal as unsound because in their view divisions should not be based on average cost overall but on the cost at the particular poundage and mileage bracket involved. One reason given is that the cost computations of the various parties demonstrate that there is a different cost relationship between REA and the air lines at different poundage and mileage brackets. These differences must be preserved to yield a truly cost oriented division formula.

The most equitable solution of the division issue appears to be offered by the air lines. As shown in Appendix E-1, which computes the percentage share of total shipment cost sustained by the air lines and REA at various weight and mileage brackets, under the Bureau method REA is at a disadvantage at lighter weights and shorter distances while the air lines are at a disadvantage at the heavier weights and longer distances. The Bureau's method, based as it is on the relationship between the aggregate costs of the respective parties, assumes a particular traffic mix in

order to arrive at a fair and reasonable result. In a particular year profits in one weight and mileage bracket might offset losses in another, but should the mix change, the result could well change with it. Such problems are avoided by tying the divisions to specific costs in the different weight and mileage brackets. It also forestalls the inequitable consequences of the carriers' customary practice of negotiating divisions unfettered by any cost or other objective standard. As the record demonstrates, this practice has allowed the air lines to assume the burden of subsidizing REA's air express operations to their own detriment and that of other users of air service.

In view of the foregoing and the evidence of record, it is found that the divisions should be determined according to the costs found reasonable at the respective weight and mileage brackets which are listed in Appendix E-1. In this connection, it may be observed that the indicated division for REA at the $8.22 minimum charge is $6.34 as compared with the $6.50 minimum share per shipment it seeks.

Implementing the Just and Reasonable Divisions

The Board orders which instituted the investigations herein include as an issue the divisions to be prescribed if those under investigation are found to be unlawful. However, at the prehearing conference it was determined that one of the issues in this case should also be whether the Board is authorized to prescribe divisions of the air express rates between REA, an indirect air carrier, and the air lines, or whether the Board's authority is limited to approving or disapproving the agreement between REA and the air lines pursuant to which the divisions are established.

The air lines would have the Board adopt the rate structure, rate level and divisions proposed in their briefs to the examiner as a guide within an appropriate zone of reasonableness; that is, the Board is requested to adopt their proposed divisions as a standard and permit any reasonable variations to be made in negotiations between REA and the air lines subject only to the zone of reasonableness which the Board will use in determining whether the agreement will be approved under Section 412 of the Act. They deny that the Board has any power to prescribe divisions of air express revenues between REA and the air lines under Section 1002(h) of the Act. 48/ They construe this section as applying only to rates established by connecting direct air carriers between points on their respective through routes. 49/

On the other hand, both REA and the Bureau claim that the air express tariff is a joint rate and the divisions under the tariffs are within the Board's jurisdiction under Section 1002(h) of the Act. REA makes the further contention that the Board can monitor the divisions under the air express tariff without having to rely on Section 1002(h). The argument is that in deciding whether the tariffs under investigation are lawful,

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48/ Section 1002(h) of the Act reads in part as follows: "Whenever, after notice and hearing, upon complaint or upon its own initiative, the Board is of the opinion that the divisions of joint rates, fares, or charges for air transportation are or will be unjust, unreasonable, inequitable, or unduly preferential or prejudicial as between the air carriers or foreign air carriers parties thereto the Board shall prescribe the just, reasonable, and equitable divisions thereof to be received by the several air carriers. . . "

49/ The air lines cite as authority the Air Freight Forwarder Investigation, 24 C.A.B. 755 (1957), aff'd, Airborne Freight Corporation v. C.A.B., 257 F. (2d) 210 (C.A.D.C. 1958).

the Board will have to determine the revenue needs of REA and the air lines and the sum of those figures will show the revenue which should be produced by the tariff. REA believes that, as a practical matter, if the Board prescribes the rates to be charged, it thereby determines what share of the revenues should go to REA on the one hand and the air lines on the other.

It has been determined herein that the tariffs under investigation are unlawful and that lawful rates must be prescribed. While the power to prescribe the rate levels does not coincide with a power to prescribe divisions, once the rate levels are prescribed according to the costs of the carriers for air express, the parties could proceed, as in the past, to negotiate an agreement regarding divisions to reflect the prescribed rates. The method of dividing revenues between REA and the air lines has always been a part of the Air Express Agreements. Since the inception of the air express service, the Board has controlled REA-air line relations through these agreements. 50/ The jurisdiction of the Board is conferred by Section 412 of the Act which allows it to approve or disapprove the agreements. Accordingly, it can offer the parties the choice of Board approval if they conform to the conditions, or of disapproval if they fail to accept them. 51/ Thus, the issue of the Board's authority to prescribe divisions need not be reached.

In this case, in view of the finding that the divisions should be

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50/ Railway Express Agency, Grandfather Certificate, 2 C.A.B. 531 (1941); Air Freight Forwarder Case, 9 C.A.B. 473 (1948).

51/ McManus v. C.A.B., 286 F. 2d 414 (2d Cir. 1961), cert. denied, 366 U. S. 928 (1961).

based on the carriers' respective costs at the particular poundage and mileage bracket involved, and in order to allow the parties to negotiate reasonable changes in divisions within an allowable range for an indefinite period in the future, it is found that acceptance by REA and the air lines of the divisions found reasonable herein, as shown in Appendix E-1, within a zone of reasonableness hereby found to extend from a level ten percent below, to a level ten percent above, the cost at a particular poundage and mileage bracket, should be a condition of approval of the carriers' Air Express Agreement relating to air express rates. It is further found that should REA and the air lines agree to adopt a minimum charge of $8.50 as previously authorized herein, a further condition of approval of the carriers' Air Express Agreement relating to air express rates shall be their inclusion of a provision in the Agreement that divisions affected by the charge are to be determined in accordance with the percentage share of the cost divisions shown in Appendix E-1 for each poundage and mileage bracket subject to the minimum charge, but allowing for negotiation within the above zone of reasonableness.

Retroactive Adjustment of the Divisions

As a result of the Board's adoption of Order 71-2-68 (February 12, 1971) the issues in this proceeding were expanded to include the question of the lawfulness of the divisions retroactive to the filing date of REA's petition and complaint in Docket 22096, that is, April 9, 1970. The Board in Order 71-2-68 stated that this action was taken "for the limited purpose of preserving the Board's legal option to grant relief retroactive to the filing date.... . ." REA now argues that the Board not only has the power to prescribe divisions but also that it has the power

to do so retroactively to April 9, 1970, and should. It claims an overpayment to the air lines on the premise of its air freight revenue-cost formula, and, therefore, that, according to by-product costing, the air lines should return to REA over $16 million for the period April 9, 1970, to January 31, 1971, and an additional $15 million covering the period from February 1, 1971, to December 31, 1971.

However, the rates and divisions found reasonable herein indicate there has been no overpayment to the air lines; on the contrary, they show that the air lines have been underpaid. But the air lines have made no claim for retroactive payment or alteration of the divisions because, in their view, neither Section 412 nor Section 1002(h) grants authority to make retroactive adjustments. Under all the circumstances, no retroactive adjustment of the divisions is required.

In view of the foregoing, it is found that the evidence does not support REA's contention that it is entitled to reimbursement for overpayments to the air lines under the divisions from April 9, 1970 forward; and that there is no need to require any retroactive adjustment of the divisions as a condition of approval under Section 412 of any agreement to be reached between REA and the air lines regarding air express rates.

EXCESS VALUATION CHARGES

The suspended tariff provided for an increase in REA's excess valuation charges from 18 cents to 30 cents per $100 of excess valuation. This investigation includes issues as to whether the proposed excess valuation charges are reasonably related to the costs incurred in addition

to the costs for a normal shipment and, if not, as to what the reasonable charge for a declaration of excess valuation is.

According to REA, it received value charges of $2,544,000 on air express shipments in 1969. Because its records are not kept in such a way as to permit it to isolate the costs incurred in processing and paying claims on air express shipments on which there were excess valuation charges, the carrier has estimated that these costs were $2,662,000 in 1969. The estimate of such costs for 1970 is $2,561,000. REA forecasts claim costs of over $3 million in 1971 and over $4 million in 1972. It expects the requested increase to produce approximately $4.2 million in value charge revenues on the basis of revenues collected in 1969 at the rate of 18 cents per $100 of valuation. It contends that the requested increase is necessary to cover its exposure to experienced air express losses and to anticipated loss increases in the immediate future.

On the basis of the foregoing facts, which constitute the substance of REA's evidence in support of its claimed increase, it is apparent that there is virtually no relationship between the two-thirds increase in excess valuation charges which has been requested and the slight overage of costs in 1969 and 1970, as compared with receipts from the declaration of excess valuation. Furthermore, the REA estimate of costs is open to question in certain major respects. For example, more than $270,000 of expenses were assigned to "Payroll and direct expense of loss and damage prevention" in 1969, and over $281,000 were so assigned in 1970, but the witness responsible for this assignment of costs testified on cross examination that these amounts are the entire payroll and expenses

of an REA division which is charged with additional duties such as advising shippers on packaging, instructing employees on safety matters, and providing terminal security. Therefore, only a part of the total figures should be assigned to that part of traffic on which excess values have been declared. Further examples are the $78,000 assigned in 1969 and $94,000 assigned in 1970 to "Payroll and direct expense incurred by terminals in handling matters related to Air Express shipments on the subject of claims" but which apparently include the expense of REA's value rooms. These rooms hold more than just items on which excess value has been declared. An adjustment for just the above-mentioned items would reduce the claimed expenses to a point about equal to or below the valuation charges received.

Not only are the proposed excess valuation charges not reasonably related to the costs incurred in addition to the costs for a normal shipment, but they also compare unfavorably with excess valuation charges of the air carriers and air freight forwarders. The air freight forwarders presently charge no more than 15 cents per $100 of excess valuation while the air lines generally charge between 10 and 15 cents per $100. There is no evidence that REA's expenses are any greater for shipments on which there have been declarations of excess valuation than they are for such shipments of the air lines or the air freight forwarders. In fact, unlike the freight carriers, REA has an advantage insofar as the Air Express Agreement allows for reimbursement of REA by the air lines for a portion of the amount paid by REA for loss and damage claims. Finally, the forecasts of claim costs for 1971 and 1972, given as the

judgment of REA's Director of Claims, were unsupported by any objective evidence.

In view of all the foregoing, it is found that the proposed excess valuation charge of 30 cents per $100 of excess valuation is not reasonably related to the costs incurred in addition to the costs for a normal shipment; that the proposed charge is, therefore, unjust and unreasonable; and that there is no evidence that the current 18 cent charge is unjust and unreasonable or otherwise unlawful. 52/

MISCELLANEOUS ISSUES

U.S.-Canada Rates

One of the issues still to be considered is whether, pursuant to Section 1002(f) of the Act, the proposed rates between points within the United States and Canada are unjustly discriminatory, unduly preferential, or unduly prejudicial; and if so how such rates should be altered or what order should be made to remove such discrimination, preference or prejudice. There is no evidence in the record on this point. While the Bureau has taken the position that such rates are discriminatory and, therefore, unlawful, there is no basis for such a finding.

The evidence concerning the lawfulness of the rates under investigation herein was directed to the issue of the reasonableness of the rates for the contiguous 48 states. However, as provided in the Prehearing Conference Report and the Supplement thereto, at the air lines' request, the data for the 48 contiguous states was to be used as a basis for fixing lawful rates which would be extended by the carriers to cover

52/ Cf. Orders 71-5-1, May 3, 1971; 71-4-53, April 9, 1971; 71-3-94, March 17, 1971; and 71-2-117, February 26, 1971.

service between points in the United States and Canada subject to the right of any party to show cost or other differences applicable to such service. No such evidence was adduced.

As a practical matter, and in view of the position of the parties at the prehearing conference, it is anticipated that in conjunction with revising the Air Express Agreement and air express rates, charges and divisions to conform to the findings herein, REA and the air lines will also modify the U.S.-Canada air express rates, charges and divisions in accordance with the findings herein as to the costs of U.S.-Canada air express service (See Appendix G).

Rates for Service To and From Puerto Rico

While the ruling at the prehearing conference regarding the applicability of the information relating to the 48 contiguous states was made in the context of an air-line request which referred only to the extension of the rates for the 48 contiguous states to Canada and the other two states, the same approach should, of course, also govern the determination of lawful rates for air express service between the 50 states and Puerto Rico. Accordingly, the lawful maximum rates for such service to and from Puerto Rico are found to be the equivalents of the costs of such service at the various weight and mileage brackets shown in Appendix G.

The Carriers' Operating Authority

The final issue is whether the proposed rates under investigation are unlawful for lack of adequate operating authority on the part of REA and the air lines. Even though AFFA was responsible for inclusion of this issue in the proceeding because of its opposition to reductions in

the tariffs under investigation for longer haul, higher weighted shipments which it feared would introduce new competition by REA, neither AFFA nor any of the other parties, except the air lines, has taken a stand on this question. The air lines argue that reduced rates for shipments at 200 and 300 pounds are within the authority of the air lines; that air express shipments of weights over 100 pounds up to thousands of pounds have always been carried by the air lines; and that the air-line certificates do not prescribe a rate structure.

It is clear that the air lines' certificates are adequate to cover their operations pursuant to air express tariffs. It is also clear that, under the operating exemption granted by the Board, 53/ REA also has had sufficient authority to provide air express service and file rates and charges in connection with such service - an authority which has been delimited by the Air Express Agreement as approved by the Board. No evidence has been offered that, in passing on such agreements, the Board has ever suggested that the parties to them had no authority to file tariffs with the kind of rate structure under investigation herein. Thus, there is no basis for finding that the rates under investigation are unlawful because the carriers lack the necessary operating authority.

ULTIMATE CONCLUSIONS

On the basis of the foregoing findings and conclusions and all the facts of record, it is found and concluded that:

1. The interstate and overseas air express rates, charges, and provisions proposed in the tariffs listed in Appendix A to Orders 70-7-109

53/ Railway Express Agency, Grandfather Certificate, 2 C.A.B. 531 (1941).

and 70-9-98, respectively, are unjust and unreasonable, and are, therefore, unlawful.

2. The rates providing for additional revenue of approximately $1.00 per shipment (exclusive of shipments of live animals and birds) authorized by Board Order 71-11-98 are unjust and unreasonable, and are, therefore, unlawful.

3. The lawful minimum charge is $8.22 for any shipment subject to the tariffs referred to in paragraph 1 above relating to interstate and overseas transportation of air express (excluding shipments of live animals and birds), and weighing five pounds or less and moving at distance scales 1 or 2; provided, however, that if REA and the air lines so concur in an agreement to publish rates, charges, and divisions conforming to the findings herein, they may make a lawful minimum charge of $8.50 for any shipment weighing ten pounds or less moving at any distance up to and including scale 10.

4. The lawful maximum interstate and overseas air express rates and charges for the services subject to the tariffs referred to in paragraph 1 above are those set forth in Appendix E, attached.

5. The divisions of revenue between REA on the one hand, and the air lines on the other, proposed in the Air Express Agreement (Agreement C.A.B. No. 17935) are unjust, unreasonable, and inequitable.

6. The just, reasonable, and equitable divisions are those set forth in Appendix E-1, attached; and acceptance by REA and the air lines of the said divisions including a zone of reasonableness, within which they may negotiate, extending ten percent above or ten percent below any such

divisions at the related poundage and mileage bracket, shall be a condition of Board approval of any carrier agreement proposing air express rates, charges, and divisions; provided, however, that if REA and the air lines agree to an $8.50 minimum charge as authorized in paragraph 3 above, a further condition of Board approval of any such carrier agreement regarding air express rates, charges, and divisions shall be the inclusion of a provision therein for determining divisions of revenues at each poundage and mileage bracket subject to the $8.50 minimum charge in accordance with the percentage share of the cost divisions shown in Appendix E-1, attached, for each such poundage and mileage bracket, but subject to negotiation within the above zone of reasonableness.

7. REA has not overpaid the air lines for the transportation of air express pursuant to the divisions in effect since April 9, 1970; accordingly, no retroactive adjustment of the divisions is required.

8. The proposed charge of 30 cents per $100.00 of excess valuation is unjust and unreasonable and is, therefore, unlawful. The current charge of 18 cents per $100 of excess valuation is not unjust or unreasonable or otherwise unlawful.

An appropriate order is attached.

Milton H. Shapiro
Hearing Examiner

March 30, 1972

Attachments

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

Issued under delegated authority

INVESTIGATION OF AIR EXPRESS RATES	Docket 22387

ORDER

A full public hearing having been held in the above-entitled proceeding and the examiner, upon consideration of the record, having issued an initial decision containing his findings and conclusions, pursuant to the authority delegated to Hearing Examiners under Rule 27 of the Rules of Practice in Economic Proceedings, which initial decision is attached hereto and made a part hereof,

IT IS ORDERED THAT:

1. The lawful maximum rates and charges for the interstate and overseas transportation of air express are those prescribed in the initial decision.

2. REA Express, Inc. and the direct air carrier parties to Tariff C.A.B. No. 1 issued by Agent G. T. Miano shall amend the said tariff to conform to the findings in the initial decision not later than 60 days after the effective date of this order, and on not less than 30 days' notice.

3. Publication of the divisions of rates and charges found reasonable and equitable in the initial decision shall be a condition of approval by the Board of the Air Express Agreement between REA Express, Inc. and the direct air carrier parties to Tariff C.A.B. No. 1 issued by Agent G. T. Miano providing for the amendment of said tariff as directed in paragraph 2 above.

4. The investigations herein be and they are hereby terminated.

5. This order shall become effective as the final order of the Board on the 31st day after the date of service of this order and the initial decision attached hereto unless a petition for discretionary review is filed within 21 days after service hereof in accordance with

Rule 28 of the Rules of Practice in Economic Proceedings (14 CFR 302.28) or the Board issues an order to review upon its own initiative. If a petition for discretionary review is timely filed, or if action to review is taken by the Board upon its own initiative, the effectiveness of this order shall be stayed until further order of the Board.

Milton H. Shapiro
Hearing Examiner

STATEMENT OF THE SUBSIDIARY ISSUES

I. What would be the impact of the proposed rate level and structure on the movement of traffic?

II. Are the proposed rates reasonably related to the costs of air express service in the aggregate and at the different weights and distances involved?

A. What is the cost of air express service to REA?

1. What are the appropriate bases for allocating REA operating costs to air express service?

B. What is the cost of air express to the direct carriers?

C. What is the total cost to REA and the direct air carriers of providing air express service?

D. Can the said rates, charges and provisions be found to be unlawful if they do not exceed the sum of the fully allocated costs plus a fair return of REA Express and the fully allocated costs plus fair return of the airlines?

III. Should actual or normalized Federal income taxes be recognized as an expense?

IV. What interest expense is properly allocable to air express service?

V. What is the appropriate rate of return on investment for air express service

A. For REA? Is the return received by REA from air express reasonable if it is within the range of return received by air freight forwarders?

B. For the direct air carriers?

VI. What is the used and useful investment properly allocable to air express service

A. By REA?

B. By the direct air carriers?

C. Should accruals for deferred Federal income taxes be included in the investment base and, if so, what if any return should be allowed on such investment?

VII. What is the reasonable rate level for air express shipments?

VIII. Should lawful rates or charges, or lawful minimum and/or maximum rates or charges, be prescribed?

IX. What is the appropriate rate structure for air express shipments?

A. Should the rate structure contain minimum rates or charges? 1/

1. If so, how should such minimum rates or charges be applied?

2. What costs are reasonably attributable to minimum-charge shipments?

B. Should the general commodity rate structure be based upon weight breaks, mileage increments, terminal and line haul charges, or some other basis?

C. What, if any, recognition should be given to value of service in the rate structure?

X. Are the proposed excess valuation charges reasonably related to costs incurred in addition to costs for a normal shipment?

A. What, if any, costs including payments made on excess valuation declarations are solely attributable to shipments on which excess valuation is declared over and above the normal cost per shipment?

B. What is the reasonable charge for excess valuation declarations?

XI. Are those portions of the proposed agreement between REA and the direct carriers relating to the divisions of rates and charges adverse to the public interest or in violation of the Act?

1/ Other than the lawful minimum charge for live animals and birds, previously prescribed by the Board and not under investigation here. See Order E-26405, dated February 26, 1968.

XII. Are the proposed divisions of rates and charges between REA and the direct carriers unjust or unreasonable or inequitable or unduly preferential or unduly prejudicial as between the carrier parties?

A. Is the Civil Aeronautics Board authorized to prescribe divisions of the air express rates between REA Express, an indirect air carrier, and the airlines, as direct air carriers, or is the Board's authority limited to approving or disapproving the agreement between REA Express and the airlines pursuant to which the divisions are established?

B. What is the appropriate basis for establishing divisions?

C. If the proposed divisions are unlawful, what are the just, reasonable, and equitable divisions to be received by the participating carriers?

XIII. Would the proposed rates applying between points within the United States and Canada be unjustly discriminatory, unduly preferential, or unduly prejudicial; and, if so, how should such rates be altered or what order should be made to remove such discrimination, preference, or prejudice?

XIV. Are existing and proposed air express rates applicable to shipments weighing 300 pounds or more so high as to be unjust and unreasonable?

Investigation Of Air Express Rates - Docket 22387

Summary of Total Costs of Domestic Air Express Service for 1969 and 1970

($ 000)

	1969			1970		
	REA Express	Air Lines	Total	REA Express	Air Lines	Total
Total Expense	$60,006 1/	$48,182 2/	$108,188	$58,548 1/	$44,649 2/	$103,197
Adjustments:						
(a) Substitute Service Expense 3/	-	1,412	1,412	-	1,152	1,152
(b) Adjustment for Other Revenues 4/	(417)	-	(417)	(384)	-	(384)
(c) Revenue from Value Charges C.O.D. Fees and Other Accessorial Charges 4/	(1,577)	-	(1,577)	(2,378)	-	(2,378)
Adjusted Expense	$58,012	$49,594	$107,606	$55,786	$45,801	$101,587
Return and Taxes	908 5/	8,914 2/	9,822	886 5/	8,260 2/	9,146
Total Costs	$58,920	$58,508	$117,428	$56,672	$54,061	$110,733

1/ Appendix C-1, page 1 of 18.
2/ Appendix B-1; and Appendix D.
3/ BC Initial Brief, Appendix A (Revised August 4, 1971); REA-IR-103 and 104; PC Direct Brief, Appendix I, page 3 of 9.
4/ Appendix C-1, page 18.
5/ Appendix C-2, page 1.

497(a)

APPENDIX B
Page 1 of 1

Investigation Of Air Express Rates - Docket 22387

Summary of Air Express Operating Results of REA and the Air Lines
Computed under Rates Determined by the Examiner
1969 and 1970
($ 000)

	1969			1970			
	REA Express	Air Lines	Total	REA Express	Air Lines	Total	Notes and References
Air Express Revenues	$65,288	$58,202	$123,490	$58,130	$52,603	$110,733	1/
Air Transportation Costs	$ --	$32,635	$ 32,635	$ --	$30,061	$ 30,061	Appendix D.
Ground Costs	58,012	16,959	74,971	55,786	15,740	71,526	Appendixes C and D.
Total Operating Costs	$58,012	$49,594	$107,606	$55,786	$45,801	$101,587	Line 2 plus Line 3.
Operating Profit or Loss	$ 7,276	$ 8,608	$ 15,844	$ 2,344	$ 6,802	$ 9,146	
Return & Tax Requirement	908	8,914	9,822	886	8,260	9,146	Appendixes C-2, D-3.
Net Income or Loss	$ 6,368	$ (306)	$ 6,062	$ 1,458	$(1,458)	$ --	Line 5 plus Line 6.
Average per Shipment:							
Cost-Excl. Return	$ 6.07	$ 5.20	$ 11.27	$ 6.52	$ 5.35	$ 11.87	
Cost-Incl. Return	6.17	6.13	12.30	6.62	6.32	12.94	
Revenue	6.84	6.10	12.94	6.79	6.15	12.94	
- Profit/(Loss)	.67	(.03)	.64	.17	(.17)	--	

1/ Lawful Air Express Rates set forth in Appendixes E and E-1 applied to 1969 and 1970 Air Express Shipments (REA-IR-16).

498(a)

Investigation Of Air Express Rates - Docket 22387

Operating Results of REA and the Air Lines Pursuant to the Interim, Suspended, and Examiner's Lawful Rates
1969-1970
($ 000)

Year		Interim			Suspended			Examiner		
		REA	Air Lines	Total	REA	Air Lines	Total	REA	Air Lines	Total
1969	Air Express Revenue	$78,218	$ 42,202	$120,420	$93,475	$ 43,450	$136,925	$65,288	$ 58,202	$123,490
	Total Transportation Costs	58,012	49,594	107,606	58,012	49,594	107,606	58,012	49,594	107,606
	Operating Profit or Loss	20,206	(7,392)	12,814	35,463	6,144	9,319	7,276	8,608	15,884
	Return and Tax Requirement	908	8,914	9,822	908	8,914	9,822	908	8,914	9,822
	Net Income or (Loss)	$19,298	$(16,306)	$ 2,992	$34,555	$(15,058)	$ 19,497	$ 6,368	$ (306)	$ 6,062
1970	Air Express Revenue	$67,955	$ 41,554	$109,509	$81,621	$ 42,706	$124,327	$58,130	$ 52,603	$110,733
	Total Transportation Costs	55,786	45,801	101,587	55,786	45,801	101,587	55,786	45,801	101,587
	Operating Profit or Loss	12,169	(4,247)	7,922	25,835	(3,095)	22,740	2,344	6,802	9,146
	Return and Tax Requirement	886	8,260	9,146	886	8,260	9,146	886	8,260	9,146
	Net Income or (Loss)	$11,283	$(12,507)	$ (1,224)	$24,949	$(11,355)	$ 13,594	$ 1,458	$ (1,458)	$ --

Source: Appendixes B, C and D.

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APPENDIX B-2
Page 1 of 1

APPENDIX B-3
Page 1 of 1

Investigation Of Air Express Rates - Docket 22387

Air Express Revenues Of Air Lines And REA
At Examiners Lawful Rates
Fiscal Year Ended September 26, 1971
($ 000)

Summary of Air Express Revenues:

	Amount	Percent
REA Express 1/	$45,254	51.3%
Air Lines 2/	42,968	48.7
Total	$88,222	100.0%

1/ REA:
$ 4.96-revenue per shipment (Appendix C-3)
x 6,613,200 shipments (Appendix I)
$32,801,000 shipment revenue

$ 1.31 revenue per piece (Appendix C-3)
x 9,506,100 pieces (Appendix I)
$12,453,000 piece revenue

2/ Air Lines:
$ 4.52 revenue per piece (Appendix B-1, ($6.15 ÷ 1.40) x 1.44 pieces per shipment)
x 9,506,100 pieces (Appendix I)
$42,968,000 piece revenue

Investigation Of Air Express Rates - Docket 22387

REA's Operating Results at the Interim and Suspended Tariff Rates
Operating Expenses as Computed by the Examiner
1969 and 1970
($ 000)

Item	1969		1970	
	Interim	Suspended	Interim	Suspended
Revenues 1/	$120,420	$136,925	$109,509	$124,327
Gross Payments to Air Carriers 2/	41,190	41,190	40,648	40,648
Added Payments to Air Carriers 3/	1,012	2,260	906	2,058
Gross Revenue	78,218	93,475	67,955	81,621
Operating Expenses 4/	58,920	58,920	56,672	56,672
Operating Profit	19,298	34,555	11,283	24,949
Nonoperating Income 5/	120	120	236	236
Nonoperating Expense 5/	677	677	1,394	1,394
Net Income	$ 18,741	$ 33,998	$ 10,125	$ 23,791

1/ Appendix C, page 2 of 2, line 3.
2/ REA-D-801, 412, 413 (revised).
3/ PC - Direct Brief, Appendix A as adjusted by examiner.
4/ Appendix B.
5/ 1969 - PC-R-859
1970 - REA-D-412, 413 (revised).

APPENDIX C
Page 2 of 2

Invesitgation Of Air Express Rates - Docket 22387

Computation of Air Express Revenues at the Interim and Suspended Rates for Calendar Years 1969 and 1970
($ 000)

	1969		1970	
	Interim	Suspended	Interim	Suspended
Total Air Express Revenues	$ 98,048 1/	$ 98,048 1/	$101,360 2/	$101,360 2/
Adjustment for General Commodity Traffic under Respective Rates (Line 9)	22,372	38,877	8,149	22,967
Total Adjusted Revenue	$120,420	$136,925	$109,509	$124,327
Actual Revenue per Shipment	$ 9.53 3/	$ 9.53 3/	$ 10.98 4/	$ 10.98 4/
Revenue per Shipment:				
Interim Tariff	11.97 5/		11.97 5/	
Suspended Tariff		13.77 6/		13.77 6/
Increase in Revenue per Shipment	$ 2.44	$ 4.24	$ .99	$ 2.79
Number of Shipments General Commodity Traffic (000)	9,169 3/	9,169 3/	8,232 4/	8,232 4/
Increased Revenue	$ 22,372	$ 38,877	$ 8,149	$ 22,967

1/ REA-D-801 (revised).
2/ REA-D-414 (revised).
3/ REA-IR-1.
4/ REA-IR-16.
5/ Appendix I (year ended 9/30/71 - General Commodity Revenue $74,759,308 ÷ 6,244,500 shipments = $11.97).
6/ Estimated revenue per shipment 15% above interim ($11.97 x 115% = $13.77).

Investigation Of Air Express Rates - Docket 22387

Examiner's Allocation of REA System Expenses to Domestic Air Express
1969 - 1970
($ 000)

Expenses	1969		1970					
			January-June 1/		July-December		Full Year	
	System	Domestic Air Express	System	Domestic Air Express	System	Domestic Air Express	System	Domestic Air Express
Equipment Maintenance	$ 18,907	$ 3,040	$ 8,066	$ 1,715	$ 9,201	$ 1,688	$ 17,267	$ 3,403
Transportation	218,918	45,867	94,111	23,342	63,887	11,543	157,998	34,885
Terminal	-	-	-	-	51,625	10,385	51,625	10,385
Operations	-	-	-	-	1,858	327	1,858	327
Traffic	4,660	2,155	2,465	589	-	-	2,465	589
Insurance	20,422	2,319	7,334	1,183	-	-	7,334	1,183
Marketing	-	-	-	-	5,013	1.898	5,013	1,898
Finance & Administration	-	-	-	-	7,710	2,123	7,710	2,123
Personnel	-	-	-	-	301	(821)	301	(821)
Executive	-	-	-	-	2,392	671	2,392	671
General	19,872	4,883	10,922	2,852	-	-	10,922	2,852
Depreciation	6,563	1,023	3,160	609	-	-	3,160	609
Taxes	4,043	719	2,080	444	-	-	2,080	444
Totals			$128,138	$30,734	$141,987	$27,814		
Total System Expenses	$292,535						$270,125	
Total Operating Expenses for Domestic Air Express (Exclusive of Air Privileges)		$60,006						$58,548

1/ Expenses assignable to Terminal, Operations, Marketing, Finance and Administration, Personnel, and Executive accounts were included under other accounts prior to July 1, 1970, when REA adopted a new accounting system.

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APPENDIX C-1
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Investigation Of Air Express Rates - Docket 22387

Examiner's Allocation of REA System Expenses to Domestic Air Express for
26 Weeks Ended June 28, 1970
(in $000)

Line No.	Maintenance Expense Account No.	Description	Total System Expense 1/	Allocation Basis	Allocated to Domestic Air Express Percent 2/	Amount
1	002-02	Building Repairs	$ 60	Piece Ratio	19.53	$ 12
2	005-00	Car Repairs	226	Direct to Surface	--	
3	010-01	Auto Repairs-Salaries-Over the Road	857		--	
4	317-00	Payroll Taxes	102	---Direct to Surface	--	
5	032	Health & Welfare & Benefits	52		--	
6	010-02	Auto Repairs-Expenses-Over the Road	929		--	
7	010-01	Auto Repairs-Salaries-Other	2,088			651
8	317-00	Payroll Taxes	249	---P and D Shipment - Mile Ratio	31.18	78
9	032	Health & Welfare & Benefits	128			40
10	010-02	Auto Repairs-Expenses-Other	2,263			706
11		Sum of Lines 3 through 10	6,668			$1,475
12		Percentage	100.00%			22.12%
13	032-03	Consultants Fees-Mainstem	$ 91	Line 12, Above	22.12	20
14	018-01	Office Equipment-Salaries	-			-
15	317-00	Payroll Taxes	-			-
16	032	Health & Welfare & Benefits	-			-
17	018-03	Office Equipment Repairs-Expenses	165	---Piece Ratio	19.53	32
18	022-01	Truck Repairs-Salaries	40			8
19	317-00	Payroll Taxes	5			1
20	032	Health & Welfare & Benefits	2			-
21	022-03	Truck Repairs-Expenses	219			43
22		Sum of Lines 11 & 13 through 21	$ 7,190			$1,579
23		Percentage	100.00%			21.96%
24	024-00	Garage Equipment Repairs	5			1
25	026-00	Line Equipment Repairs	29			6
26	028-00	Shop Equipment Repairs	5	---Line 23 Above	21.96	1
27	029-00	Miscellaneous Equipment Repairs	34			7
28	030-00	Retirements	28			6
29		Sum of Lines 1, 2, 22,-24	$ 7,577			$1,612
30		Percentage	100.00%			21.27%
31	001-01	Superintendence-Salaries	$ 345			$ 73
32	317-00	Payroll Taxes	41	---Line 30, Above		9
33	032	Health & Wealth & Benefits	21			4
34	001-03	Superintendence-Expenses	82			17
35		Total Maintenance Expense	$ 8,066			$1,715

1/ REA-D-412 Revised
2/ See page 7.

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(in $000)

Line No.	Transportation Expense Account No.	Description	Total System Expense 1/	Allocation Basis	Allocated to Domestic Air Express Percent 2/	Amount
1	038-01	Office Employees-Clerical	$19,633			$5,994
2	317-00	Payroll Taxes	2,337	---Shipment Ratio	30.53	726
3	052	Health & Welfare & Benefits	2,007			613
4	038-02	Office Employees-Platform	15,402			3,008
5	317-00	Payroll Taxes	1,830	---Piece Ratio	19.53	357
6	052	Health & Welfare & Benefits	1,575			308
7	039-00	Commissions	2,399	REA Rate Justification,	5.70	137
8	040-00	Office Supplies and Expenses	3,672	August 24, 1970		717
9	041-00	Terminal Rent and Expenses	4,295	---Piece Ratio	19.53	839
10	042-00	Vehicle Employees-P & D	21,592			6,732
11	317-00	Payroll Taxes	2,570	---P and D Mile Ratio	31.18	801
12	052	Health & Welfare & Benefits	2,207			688
13	042-00	Vehicle Employees-Over the Road	3,840			--
14	317-00	Payroll Taxes	457	---Direct to Surface	--	--
15	052-00	Health & Welfare & Benefits	393			--
16		Sum of Lines 10 through 15	$31,059			$8,221
17		Percentage	100.00%			26.47%
18	043-00	Garage Employees	$ 1,141			302
19	317-00	Payroll Taxes	136	---Line 17, Above	26.47	36
20	052	Health & Welfare & Benefits	117			31
21	044-01	Short Term Leases	142			38
22	044-02	Long Term Leases	1,303	---Line 17, Above	26.47	345
23	044-03	Miscellaneous	3,034			803
24	044-04	Detention Charges	474	Direct to Surface	--	--
25	045-00	Drayage	354	REA Rate Justification,	13.70	48
26	046-00	Train Employees	9	August 24, 1970		--
27	317-00	Payroll Taxes	1			--
28	052	Health & Welfare & Benefits	1	---Direct to Surface	--	--
29	047-02	Train Supplies and Expenses	49			--
30	048-00	Stationery and Printing	697	Shipment Ratio	30.53	213
31		(Sum of Lines 1 through 9 and 16 through 30)	$91,667			$22,736
32		Percentage	100.00%			24.80%
33	037-01	Superintendence-Salaries	1,705			$ 423
34	317-00	Payroll Taxes	203	---Line 32, Above	24.80	50
35	052	Health & Welfare & Benefits	174			43
36	037-03	Superintendence-Expenses	362			90
37		Total Transportation Expense (Lines 31 and 33 through 36)	$94,111			$23,342

1/ REA-D-412 Revised. 2/ See page 7.

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Line No.	Traffic Expense Account No.	Description	Total System Expense 1/	Allocation Basis	Allocated to Domestic Air Express Percent 2/	Amount
1	033-02	Superintendence-Salesmen Salaries	$ 990			$ 297
2	317-00	Payroll Taxes	118	---Gross Revenue Ratio	30.02	35
3	052	Health & Welfare & Benefits	89			27
4	033-04	Superintendence - Expenses	511			153
5	034-01	Advertising-Surface Media	295	Direct to Surface	--	--
6	034-02	Advertising-Air Media	(54)	Direct to Air		(54)
7	035-01	Stationery and Printing-Tariffs	18	REA-D-412 Revised, Sheet 13	66.67	12
8		Sum of Lines 1 through 17	$ 1,967			$ 470
9		Percentage	100.00%			23.89%
10	035-02	Stationery and Printing-Misc.	22			5
11	033-01	Superintendence-Clerical-Salaries	393			94
12	317-00	Payroll Taxes	47	---Line 10, Above	23.89	11
13	052	Health & Welfare & Benefits	36			9
14		Total Traffic Expense (Line 9 and 11 through 13)	$ 2,465			$ 589
		Insurance Expense				
15	049-01	Claim Salaries	$ 426			$ 52
16	317-00	Payroll Taxes & Benefits	57	---REA-D-412 Revised, Sheet 13	12.32	7
17	049-02	Miscellaneous	147			18
18	049-03	Surface Freight Losses	4,195	Direct to Surface	--	--
19	049-04	Air Freight Losses	560	Direct to Air	100.00	560
20		Sum of Lines 18 and 19	$ 4,755			$ 560
21		Percentage	100.00%			11.78%
22	049-05	Prevention and Security-Salaries	370	Shipment Ratio	30.53	113
23	317-00	Payroll Taxes & Benefits	49	Shipment Ratio	30.53	15
24	050-00	Property Damage	2	Line 21, Above	11.78	--
25	051-00	Personal Injuries	7	Shipment Ratio	30.53	2
26	058-00	Fidelity Bond Premiums	17	Gross Revenue Ratio	30.02	5
27	059-00	Pensions	533	PC-R-885	28.12	150
28	057-01	Automotive, Comprehensive, Excess Liability and Self-Insurance	803	P and D Shipment Ratio	27.14	218
	057-02	Miscellaneous Insurance				
29		Buildings and Boilers	32	Piece Ratio	19.53	6
30		Auto, Travel and Misc. Liability	136	P and D Shipment Ratio	27.14	37
31		Total Insurance Expense (Lines 15, 16, 17, 20, and 22-30)	$ 7,334			$1,183

1/ REA-D-412 Revised.
2/ See Page 7.

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Line No.	General Expense Account No.	Description	Total System Expense 1/	Allocation Basis	Allocated to Domestic Air Express Percent 2/	Amount
1	053-01	Officers Salaries	$ 426			$ 130
2	317-00	Payroll Taxes	51			16
3	032	Health & Welfare & Benefits	62			19
4	053-02	Officers Expenses	92			28
5	054-01	Clerical Salaries	4,960			1,514
6	317-00	Payroll Taxes	590			180
7	032	Health & Welfare & Benefits	725	---Shipment Ratio	30.53	221
8	054-02	Clerical Expenses	79			24
9	055-02	Office Expenses	843			257
10	056-01	Law Salaries	100			31
11	317-00	Payroll Taxes	12			4
12	032	Health & Welfare & Benefits	15			5
13	056-02	Law Expenses	447			136
14	060-00	Stationery and Printing	218			67
15	316-00	Uncollectible Revenue	1,627	REA-D-412 Revised, Sheet 17	Direct	14
16	062-02	Other Expenses - Miscellaneous	675	Shipment Ratio	30.53	206
17		Total General Expense (Line 1 through 16)	$10,922			$2,852
	Depreciation					
18	031-03	Buildings	$ 483	REA-D-412 Revised, Sheet 10	10.75	$ 52
19	031-06	Cars	90	Direct to Surface	--	--
20	031-11	Automobiles - Over the Road	573	Direct to Surface	--	--
21	031-11	Automobiles - Other	1,395	P and D Shipment - Mile Ratio	31.18	435
22	031-19	Office Equipment	410	Piece Ratio	19.53	80
23	031-23	Trucks	161	Piece Ratio	19.53	31
24	031-25	Garage Equipment	6			1
25	031-27	Line Equipment	-	---Sheet 2, Line 23	21.96	--
26	031-29	Shop Equipment	12			3
27	031-31	Miscellaneous Equipment	30			7
28		Total Depreciation (Line 18 through 28)	$ 3,160			$ 609
29		Percentage	100.00%			19.27%

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Examiner's Allocation of REA System Expenses to Domestic Air Express for
26 Weeks Ended June 28, 1970
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Line No.	Taxes Account No.	Description	Total System Expense 1/	Allocation Basis	Allocated to Domestic Air Express Percent 2/	Amount
1	317-00	Ad Valorem Tax	$ 692	Sheet 5, Line 29	19.27	$ 133
2	317-00	On Earnings	91	Gross Revenue Ratio	30.02	27
3	317-00	Property Operated and Fuel	52	REA-D-412 Revised, Sheet 14	21.09	11
4	317-00	Miscellaneous (Highway Taxes, Axle Taxes, Etc.)	1,245	Sheet 2, Line 23	21.96	273
		Total Taxes Other than Payroll (Line 1 through 4)	$ 2,080			$ 444

1/ REA-D-412, Revised.
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Derivation of Factors Used in Allocating REA Expenses Between Surface and Air
for the 26 Weeks Ended June 28, 1970

Line	Description	Source	System Amount	System Percent	Domestic Air As a Percent of System 1/	Domestic Air Ratio
	Shipment Ratio					
1	Air	REA-D-412 Revised, Sheet 12	$ 4,790,000	32.76%	93.18%	30.53%
2	Surface	REA-D-412 Revised, Sheet 12	9,831,000	67.24		
3	Total		$ 14,621,000	100.00%		
	Piece Ratio					
4	Air	REA-D-412 Revised, Sheet 10	$ 6,987,600	20.69%	93.18%	19.53%
5	Surface	REA-D-412 Revised, Sheet 10	26,445,390	79.31		
6	Total		$ 33,342,990	100.00%		
	Gross Revenue Ratio					
7	Air	REA-D-412 Revised, Sheet 12	$ 51,229,000	32.83%	91.46%	30.02%
8	Surface	REA-D-412 Revised, Sheet 12	104,833,000	67.17		
9	Total		$156,062,000	100.00%		
	P and D Shipment					
10	Air	REA-D-412 Revised(2), Sheet 11c	$ 825,908	27.14%	--	27.14%
11	Surface	REA-D-412 Revised(2), Sheet 11c	2,217,528	72.86		
12	Total		$ 3,043,436	100.00%		
	P and D Shipment					
13	Air	REA-D-412 Revised(2), Sheet 11a	$ 1,069,153	31.18%	--	31.18%
14	Surface	REA-D-412 Revised(2), Sheet 11a	2,359,544	68.82		
15	Total		$ 3,428,697	100.00%		

1/ Derived as follows:

Description	Source	Shipments	Pieces	Revenue
1970 Total Air	(1) REA-IR-16, page 5	8,835,000	--	$98,811,893
	(2) 8,835,000 x 1.44 pieces per shipment REA-D-412, 413 Revised	--	12,722,400	--
1970 Domestic Air	(1) REA-IR-16, page 5	8,232,124	--	$90,372,975
	(2) 8,232,124 x 1.44 pieces per shipment	--	11,854,259	--
% Domestic of Total		93.18%	93.18%	91.46%

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Examiner's Allocation of REA System Expenses to Domestic Air Express for
26 Weeks Ended December 27, 1970
(in $000)

Line No.	Equipment Maintenance Expenses Account No.	Description	Total System Expenses 1/	Allocation Basis	Allocated to Domestic Air Express Percent 2/	Amount
		LINE HAUL MAINTENANCE				
1	512-01	Payroll	$ 817			
2	512-02	Employees' Welfare	187			
3	512-06	Supplies	795			
4	512-07	Services Purchased	774			
5	512-08	Unclassified	2			
6	512-14	Professional Services	7			
7	512-17	Equipment Rentals	(1)			
8	512-21	Tires and Tubes	298			
9	512-95	Other Expense Transfers	(29)			
10		Total 512-Sum of Lines 1-9	$ 2,850	Direct to Surface	--	--
		PICKUP AND DELIVERY MAINTENANCE				
11	513-01	Payroll	$ 2,321			
12	513-02	Employees' Welfare	536			
13	513-06	Supplies	1,088			
14	513-07	Services Purchased	612			
15	513-08	Unclassified	2			
16	513-17	Equipment Rentals	4			
17	513-21	Taxes and Tubes	80			
18		Total 513-Sum of Lines 11-17	$ 4,643	P and D Shipment - Mile Ratio	31.18	$1,448
19		Total 512 and 513-Sum of Lines 10 and 18	$ 7,493			$1,448
20		Percentage	100.00%			19.32%
		SERVICE CARS				
21	514-01	Payroll	$ 78			
22	514-02	Employees' Welfare	19			
23	514-04	Taxes & Licenses	25			
24	514-06	Supplies	32			
25	514-07	Services Purchased	12			
26	514-13	Depreciation	70			
27	514-17	Equipment Rentals	53			
28	514-21	Tires and Tubes	6			
29	514-22	Motor, Fuel and Oil	16			
30		Total 514-Sum of Lines 21-29	$ 311	Line 17, Above	19.32%	$ 60

1/ REA-D-413 Revised.
2/ See Page 17.

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Examiner's Allocation of REA System Expenses to Domestic Air Express for
26 Weeks Ended December 27, 1970
(in $000)

Line No.	Account No.	Description	Total System Expense 1/	Allocation Basis	Allocated to Domestic Air Express Percent 2/	Amount
		Equipment Maintenance Expenses (con't)				
		RAILROAD CAR MAINTENANCE				
31	515-06	Supplies	$ 46			
32	515-07	Services Purchased	368			
33		Total 515-Sum of Lines 31 & 32	$ 414	Direct to Surface	--	--
34		Total 512, 513, 514 & 515-Sum of Lines 10, 18, 30, & 33	$ 8,218			$1,508
35		Percentage	100.00%			18.35%
		MAINTENANCE MANAGEMENT				
36	511-01	Payroll	$ 647			
37	511-02	Employees' Welfare	151			
38	511-06	Supplies	25			
39	511-07	Services Purchased	38			
40	511-08	Unclassified	4			
41	511-09	Traveling	28			
42	511-13	Depreciation	42			
43	511-17	Equipment Rentals	5			
44	511-20	Real Property Rentals	43			
45		Total 511-Sum of Lines 36-44	$ 983	Line 35, above	18.35	$ 180
46	510-00	Total Equipment Maintenance Expenses	$ 9,201			$1,688
		Transportation Expenses				
		LINE HAUL TRANSPORTATION				
1	522-01	Payroll	$ 6,832			
2	522-02	Employees' Welfare	1,587	REA-D-413 Revised, Sheet 11	4.01	$ 274
3	522-04	Taxes and Licenses	976			64
4	522-07	Services Purchased	16			
5	522-09	Traveling	22			
6	522-10	Communications	9			
7	522-12	Insurance	255	Direct to Surface		
8	522-13	Depreciation	902			
9	522-17	Equipment Rentals	1,764			
10	522-18	Purchased Transportation	683			
11	522-22	Motor Fuel and Oil	1,368			
12		Total 522-Sum of Lines 1-11	$14,414			$ 338

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26 Weeks Ended December 27, 1970
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Line No.	Transportation Expenses (con't) Account No.	Description	Total System Expense 1/	Allocation Basis	Allocated to Domestic Air Express Percent 2/	Amount
		PICKUP AND DELIVERY TRANSPORTATION				
13	523-01	Payroll	$21,859			$6,816
14	523-02	Employees' Welfare	5,056	---P and D Shipment-Mile Ratio	31.18	1,576
15	523-04	Taxes and Licenses	380			118
16	523-08	Unclassified	38			12
17	523-12	Insurance - Surface Claims	4,117	Direct to Surface	--	--
18		Liability Insurance	420			131
19	523-13	Depreciation	1,131	---P and D Shipment-Mile Ratio	31.18	353
20	523-17	Equipment Rentals	457			142
21	523-18	Purchased Transportation	446	Shipment Ratio	28.05	125
22	523-22	Motor Fuel and Oil	1,049	P and D Shipment-Mile Ratio	31.18	327
23		Total 523-Sum of Lines 13-22	$34,953			$9,600
		AIR TRANSPORTATION				
24	524-04	Taxes & Licenses	$ 918			
25	524-12	Insurance	687			
26	524-18	Purchased Transportation	18,721			
27		Total 524-Sum of Lines 24-25	$ 1,605	Direct to Air	100.00	$1,605
		RAILROAD TRANSPORTATION				
28	525-01	Payroll	$ 108			
29	525-02	Employees' Welfare	23			
30	525-04	Taxes and Licenses	11			
31	525-08	Unclassified	(12)			
32	525-13	Depreciation	150			
33	525-17	Equipment Rentals	29			
34	525-18	Purchased Transportation	12,547			
35	525-23	Demurrage and Detention	177			
36	525-95	Other Expense Transfers	(118)			
37		Total 525-Sum of Lines 28-36	$12,915	Direct to Surface		
38	520-00	Total Transportation Expenses Sum of Lines 12, 25, 27 & 37	$63,887			$11,543

1/ REA-D-413 Revised.
2/ See Page 17.

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(in $000)

Line No.	Terminal Expenses Account No.	Description	Total System Expense 1/	Allocation Basis	Allocated to Domestic Air Express Percent 2/	Amount
		TERMINAL MANAGEMENT				
1	531-01	Payroll	$ 8,989			
2	531-02	Employees' Welfare	2,090	--- Shipment Ratio	28.05	$2,521
3	531-04	Taxes & Licenses	618	REA-D-413 Revised, Sheet 15	17.01	586
4	531-05	Utilities	722	Piece Ratio	17.05	105
5	531-06	Supplies	315	Shipment Ratio	28.05	123
6	531-07	Services Purchased	332			88
7	531-08	Unclassified	47	--- Piece Ratio	17.05	57
8	531-09	Traveling	258			8
9	531-10	Communications	1,883			44
10	531-12	Insurance	112	Shipment Ratio	28.05	321
11	531-13	Depreciation	1,125			31
12	531-17	Equipment Rentals	227	--- Piece Ratio	17.05	192
13	531-19	Commission Agents	2,462	Gross Revenue Ratio	30.03	39
14	531-20	Real Property Rentals	3,064	Piece Ratio	17.05	739
15		Total 531-Sum of Lines 1-14	$22,244			522
						$5,376
		CARGO HANDLING				
16	532-01	Payroll	$23,162			
17	532-02	Employees' Welfare	5,421			
18	532-06	Supplies	35			
19	532-17	Equipment Rental	41			
20		Total 532-Sum of Lines 16-19	$28,659	Piece Ratio	17.05	$4,886
		PROPERTY MAINTENANCE				
21	534-01	Payroll	$ 399			
22	534-02	Employees' Welfare	90			
23	534-06	Supplies	87			
24	534-07	Equipment Rental	146			
25		Total 534-Sum of Lines 21-24	$ 722	Piece Ratio	17.05	$ 123
26	530-00	Total Terminal Expenses Sum of Lines 15, 20 & 25	$51,625			$10,385

1/ REA-D-413 Revised.
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Line No.	Operations Expense Account No.	Description	Total System Expense 1/	Allocation Basis	Allocated to Domestic Air Express Percent 2/	Allocated to Domestic Air Express Amount
		OPERATIONS MANAGEMENT				
1	541-01	Payroll	$ 596			
2	541-02	Employees' Welfare	137			
3	541-06	Supplies	4			
4	541-07	Services Purchased	4			
5	541-08	Unclassified	18			
6	541-09	Traveling	95			
7	541-10	Communications	3			
8	541-17	Equipment Rentals	10	Total 530 p.11, L.26 & 523		
9	541-20	Real Property Rentals	5	p.10, L.23		
10		Total 541-Sum of Lines 1-9	$ 872	Air Expenses÷Total System	23.08	$ 201
		FLEET MAINTENANCE				
11	542-01	Payroll	$ 157			
12	542-02	Employees' Welfare	36			
13	542-06	Supplies	4			
14	542-07	Services Purchased	3			
15	542-09	Traveling	26			
16	542-13	Depreciation	2			
17	542-14	Professional Services	133			
18	542-17	Equipment Rentals	2	Total 510 p.9, L.45		
19		Total 542-Sum of Lines 11-18	$ 363	Air Expenses÷Total System	18.35	$ 67
		TERMINAL OPERATIONS				
20	543-01	Payroll	$ 237			
21	543-02	Employees' Welfare	54			
22	543-06	Supplies	71			
23	543-07	Services Purchased	2			
24	543-08	Unclassified	6			
25	543-09	Traveling	31			
26	543-10	Communications	10			
27	543-17	Equipment Rentals	2			
28	543-22	Motor, Fuel & Oil	1			
29		Total 543-Sum of Lines 20-29	$ 414	Direct to Surface	--	--
		INDUSTRIAL ENGINEERING				
30	544-01	Payroll	$ 132			
31	544-02	Employees' Welfare	32			
32	544-07	Services Purchased	17			
33	554-09	Traveling	24			
34	554-10	Communications	3			
35	554-14	Professional Services	1			
			$ 209	Shipment Ratio	28.05	$ 59
36	540-00	Total Operations Expense	$ 1,858			$ 327
37		Sum of Lines 10, 19, 29 & 36				

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Examiner's Allocation of REA System Expenses to Domestic Air Express for
26 Weeks Ended December 27, 1970
(in $000)

Line No.	Marketing Expenses Account No.	Description	Total System Expense 1/	Allocation Basis	Allocated to Domestic Air Express Percent 2/	Amount
		SALES				
1	552-01	Payroll	$ 1,340			
2	552-02	Employees' Welfare	311			
3	552-03	Advertising	2			
4	552-06	Supplies	15			
5	552-07	Services Purchased	37			
6	552-08	Unclassified	64			
7	552-09	Traveling	431			
8	552-10	Communications	11			
9	552-17	Equipment Rentals	110			
10		Total 552-Sum of Lines 1-9	$ 2,321	Gross Revenue Ratio	30.03	$ 697
		FREIGHT CLAIMS				
11	553-01	Payroll	$ 386			
12	553-02	Employees' Welfare	89			
13	553-06	Supplies	4			
14	553-07	Services Purchased	1			
15	553-09	Traveling	6			
16	553-10	Communications	8			
17	553-17	Equipment Rentals	1			
18		Total 553-Sum of Lines 11-17	$ 495	REA-D-413 Revised, Sheet 11	11.14	$ 55
		SURFACE ADVERTISING				
19	554-01	Payroll	$ 45			
20	554-02	Employees' Welfare	12			
21	554-03	Advertising	1,021			
22	554-06	Supplies	22			
23	554-07	Services Purchased	26			
24	554-08	Unclassified	7			
25	554-09	Traveling	6			
26	554-10	Communications	14			
27	554-14	Professional Services	42			
28		Total 554-Sum of Lines 19-27	$ 1,195	REA-D-413 Revised, Sheet 14		$ 315

1/ REA-D-413 Revised.
2/ See Page 17.

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Examiner's Allocation of REA System Expenses to Domestic Air Express for
26 Weeks Ended December 27, 1970
(in $000)

Line No.	Account No.	Marketing Expenses (Con't) Description	Total System Expense 1/	Allocation Basis	Allocated to Domestic Air Express Percent 2/	Amount
		AIR ADVERTISING				
29	555-03	Advertising	$ 492			
30	555-06	Supplies	1			
31	555-10	Communications	1			
32			$ 494	Direct to Air	100.00	$ 494
		MARKET RESEARCH				
33	556-01	Payroll	$ 42			
34	556-02	Employees' Welfare	11			
35	556-06	Supplies	1			
36		Total 556-Sum of Lines 33-35	$ 54	Gross Revenue Ratio	30.03	$ 16
		TRAFFIC				
37	557-01	Payroll	$ 94			
38	557-02	Employees' Welfare	20			
39	557-06	Supplies	2			
40	557-07	Services Purchased	18			
41	557-10	Communications	6			
42		Total 557-Sum of Lines 37-41	$ 140	Gross Revenue Ratio	30.03	$ 42
		AIR SERVICE MANAGEMENT				
43	558-01	Payroll	$ 140			
44	558-02	Employees' Welfare	33			
45	558-06	Supplies	6			
46	558-07	Services Purchased	4			
47	558-08	Unclassified	15			
48	558-09	Traveling	56			
49	558-10	Communications	7			
50	558-17	Equipment Rentals	4			
51		Total 558-Sum of Lines 43-50	$ 265	Direct to Air	100.00	$ 265
		FOREIGN SERVICES MANAGEMENT				
52	559-01	Payroll	$ 27			
53	559-02	Employees' Welfare	8			
54	559-06	Supplies	1			
55	559-09	Traveling	13			
56		Total 559-Sum of Lines 52-55	$ 49	Shipment Ratio	28.05	$ 14
57	550-00	Total Marketing Expenses Sum of Lines 10,18,28,32, 38, 42, 51, & 56	$5,013			$1,898

1/ REA-D-413 Revised.
2/ See Page 17.

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Examiner's Allocation of REA System Expenses to Domestic Air Express for
26 Weeks Ended December 27, 1970
(in $000)

Line No.	Account No.	Description	Total System Expense 1/	Allocation Basis	Allocated to Domestic Air Express Percent 2/	Amount
		FINANCE AND ADMINISTRATION				
1	560-01	Payroll	$ 4,979			
2	560-02	Employees' Welfare	1,156			
3	560-06	Supplies	70			
4	560-07	Services Purchased	176			
5	560-08	Unclassified	79			
6	560-09	Traveling	90			
7	560-10	Communications	271			
8	560-13	Depreciation	12			
9	560-14	Professional Services	116			
10	560-17	Equipment Rentals	426			
11	560-20	Real Property Rentals	145			
12	560-95	Other Expense Transfers	(11)			
13		Sub-total	$ 7,509	Shipment Ratio	28.05	$ 2,106
14	560-16	Uncollectible Revenues	201	REA-D-413 Revised, Sheet 14	Direct	17
15	560-00	Total Finance and Administration-Sum of Lines 13-14	$ 7,710			$ 2,123
		PERSONNEL EXPENSES				
16	570-01	Payroll	$ 218			$ 61
17	570-02	Employees' Welfare	(17,285)			(4,848)
18	570-04	Taxes and Licenses	9,075			2,546
19	570-06	Supplies	12	---Shipment Ratio	28.05	3
20	570-07	Services Purchased	44			12
21	570-08	Unclassified	47			13
22	570-09	Traveling	23			6
23	570-11	Pensions	455			128
24	570-12	Insurance	7,690	PC-R-886	16.28	1,252
25	570-14	Professional Services	22	Shipment Ratio	28.05	6
26	570-00	Total Personnel Expenses-Sum of Lines 16-25	$ 301			$ (821)

1/ REA-D-413 Revised.
2/ See Page 17.

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Examiner's Allocation of REA System Expenses to Domestic Air Express for
26 Weeks Ended December 27, 1970
(in $000)

Line No.	Account No.	Description	Total System Expense 1/	Allocation Basis	Allocated to Domestic Air Express Percent 2/	Amount
		EXECUTIVE EXPENSES				
27	590-01	Payroll	$ 985			
28	590-02	Employees' Welfare	230			
29	590-04	Taxes and Licenses	213			
30	590-06	Supplies	169			
31	590-07	Services Purchased	49			
32	590-08	Unclassified	80			
33	590-09	Traveling	84			
34	590-10	Communications	6			
35	590-12	Insurance	38			
36	590-13	Depreciation	5			
37	590-14	Professional Services	378			
38	590-15	Donations	3			
39	590-17	Equipment Rentals	17			
40	590-20	Real Property Rentals	139			
41	590-24	Regulatory Fees	8			
42	590-95	Other Expense Transfers	(12)			
43	590-00	Total Executive Expenses Sum of Lines 27-42	$2,392	Shipment Ratio	28.05	$671

1/ REA-D-413 Revised.
2/ See Page 17.

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Investigation Of Air Express Rates - Docket 22387

Derivation of Factors Used in Allocating REA Expenses Between Surface and Air
for the 26 Weeks Ended December 27, 1970

Line	Description	Source	System Amount	System Percent	Domestic Air As a Percent of System 1/	Domestic Air Ratio
	Shipment Ratio					
1	Air	REA-D-413 Revised, Sheet 10	$ 4,067,000	29.96%	93.18%	28.05%
2	Surface	REA-D-413 Revised, Sheet 10	9,510,000	80.04		
3	Total		$ 13,577,000	100.00%		
	Piece Ratio					
4	Air	REA-D-413 Revised, Sheet 8	$ 5,856,500	18.30%	93.18%	17.05%
5	Surface	REA-D-413 Revised, Sheet 8	26,152,500	81.70		
6	Total		$ 32,009,000	100.00%		
	Gross Revenue Ratio					
7	Air	REA-D-413 Revised, Sheet 10	$ 50,131,000	32.83%	91.46%	30.03%
8	Surface	REA-D-413 Revised, Sheet 10	102,561,000	67.17		
9	Total		$152,692,000	100.00%		
	P and D Shipment Ratio (Domestic)					
10	Air	REA-D-413 Revised, Sheet 9c	$ 825,908	27.14%	--	27.14%
11	Surface	REA-D-413 Revised, Sheet 9c	2,217,528	72.86		
12	Total		$ 3,043,436	100.00 %		
	P and D Shipment-Mile Ratio (Domestic)					
13	Air	REA-D-413 Revised, Sheet 9a	$ 1,069,153	31.18%	--	31.18%
14	Surface	REA-D-413 Revised, Sheet 9a	2,359,544	68.82		
15	Total		$ 3,428,697	100.00%		

1/ Appendix C-1, page 7.

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Investigation Of Air Express Rates - Docket 22387

Examiner's Allocation of REA System Miscellaneous Revenues to Domestic Air Express, and Computation of Revenue from Value Charges, C.O.D. Fees, and Other Accessorial Charges
($000)

Line No.	"Other" Revenues 1/	1969 Total	1969 Exclusion	1969 To Allocate	1970 Total	1970 Exclusion	1970 To Allocate
1	Foreign Express	$ 239	--	$ 239	$ (4)	--	$ (4)
2	Miscellaneous	218	$ 218	--	137	$ 137	--
3	Customs Brokerage Fees	1,377	1,377	--	1,471	1,471	--
4	Order and Commission	3	--	3	1	--	1
5	Property Rents	120	--	120	81	--	81
6	C.O.D. Fees	631	631	--	588	588	--
7	Storage Charges	647	647	--	913	913	--
8	Advertising	866	--	866	926	--	926
9	Miscellaneous	161	--	161	276	--	276
10	Totals	$4,262		$1,389	$4,389		$1,280
11	Per Cent Air Express Revenues to Total Revenues 2/			30.02%			30.03%
12	"Other" Revenue Allocation			$417			$384

1/ REA 5023.
2/ Appendix C-1, pages 7 & 17.

* * * * * * * * *

	Item	Amount 1969	Amount 1970	Source 1969	Source 1970
1	Domestic Air Express Revenues	$98,048	$101,190	REA-IR-101	REA-IR-16
2	Air Express Transportation Charges	96,471	98,812	REA-IR-3	REA-IR-16
3	Value Charges, C.O.D. Fees and Other Accessorial Charges	$ 1,577	$ 2,378		
4	Number of Shipments	9,543,300	8,232,124	REA-IR-1	REA-IR-16
5	Accessorial Revenue per Shipment	$ .17	$ .29		

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REA Domestic Air Express Return and Taxes
1969 - 1970
(in $ 000)

	System As Recognized 1/	Allocation Basis	Domestic Air Express Percent	Domestic Air Express Amount
Investment				
Working Capital	(9,164)	Cash Oper. Expense Ratio 7/	20.63	(1,891)
Real Property and Equipment-Net				
Land	4,592	Piece Ratio	18.60	854
Buildings	16,468	" "	18.60	3,063
Equipment	28,006	" "	18.60	4,313 8/
Total	49,066			8,230
Misc. Physical Property-Net (Nonoperating)	-			
Investments in Affiliated and Other Cos.				
Express Companies	25			
Other Than Express Companies	-			
Total	25	Cash Oper. Expense Ratio 7/	20.63	5
Insurance and Other Reserve Funds	205	Cash Oper. Expense Ratio 7/	20.63	6 9/
Unadjusted Debits and Other Deferred Assets	2,761	Cash Oper. Expense Ratio 7/	20.63	405 10/
Sub-Total	42,893			6,755
Ratio of Domestic Air to System	-			15.75%
Adjustments				
Deferred Federal Income Taxes	(5,114)		15.75	(805) 11/
Deferred Investment Tax Credits	(129) 2/		15.75	(20) 11/
Operating and Insurance Reserves	(6,385)		15.75	(1,006) 11/
Adjusted Investment	31,265			$4,924
Return and Taxes				
Return on Investment @ 12.35% 3/	3,861		15.75	608
Less: Interest Expense				
Allocable to Surface and Air	2,103		15.75	331 11/
Allocable to Surface Only	123		-	-
Total	2,226		-	331
Return on Equity (Net of Tax) 4/	1,635			277
Computed Tax @ 48% 5/	1,771			300
1969 Total Return and Tax 6/	5,632			908
1969 Total Operating Expense-Domestic Air Portion (Appendix B)				60,006
Return and Tax Markup				0.01513 12/
1970 Total Operating Expense-Domestic Air Portion (Appendix B)				58,548
1970 Total Return and Tax				886

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REA Domestic Air Express Return and Taxes
1969 - 1970
(in $ 000)

EXPLANATORY NOTES

1/ BC-RE-103 Revised, Page 1.
2/ CEA-REB-2126, Page 3, Footnote 9.
3/ Adjusted Investment x 12.35%
4/ Return on Investment Less Interest Expense.
5/ Return on Equity (Net of Tax) x 52% ÷ 48%
6/ Return on Investment Plus Computed Tax.
7/ Derived as follows:

	Amount
System (Appendix C-1)	
Total Operating Expense	292,535
Less: Depreciation	6,563
Cash Operating Expense	285,972
Domestic Air (Appendix C-1)	
Total Operating Expense	60,006
Less: Depreciation	1,023
Cash Operating Expense	58,983
Ratio of Domestic Air Cash Operating Expense of System	20.63%

8/ Derived as follows:

	Average Amount
Total Equipment-System	28,006
Less: Assignable to Surface-Railroad Cars and Line Equipment (BC-RE-103, Page 2)	4,819
Assignable to Surface and Air	23,187
Domestic Air Piece Ratio	18.60%
Allocated to Air	4,313

9/ Derived as follows:

	Average Amount
Total Insurance and Other Funds-System	205
Less: Assignable to Surface:	
(1) Lease Performance Security, PIC-Walsh Freight Co.	6
(2) Marsh and McLennan Surface Cargo Insurance Deposit	172
Assignable to Surface and Air	27
Cash Operating Expense Ratio	20.63%
Allocated to Air	6

10/ Derived as follows:

	Average Amount
Total Unadjusted Debits and Other Def. Assets	2,761
Less: Assignable to Surface-Unamortized Over the Road Franchise Costs	799
Assignable to Surface and Air	1,962
Cash Operating Expense Ratio	20.63%
Allocated to Air	405

11/ In same proportion as Domestic Air Investment is of System. 15.75%

12/ Total Return and Tax ÷ Total Operating Expense

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Examiner's Computation of REA Express Costs by Weight

1970					
Weight	Pieces 1/	Piece Charge 2/	Piece Cost	Shipment Cost 2/	Total Cost
5	1.05	1.31	1.38	4.96	6.34
10	1.07	1.31	1.40	4.96	6.36
15	1.12	1.31	1.47	4.96	6.43
20	1.21	1.31	1.59	4.96	6.55
25	1.30	1.31	1.70	4.96	6.66
30	1.38	1.31	1.81	4.96	6.77
40	1.57	1.31	2.06	4.96	7.02
50	1.78	1.31	2.33	4.96	7.29
75	2.32	1.31	3.04	4.96	8.00
100	2.84	1.31	3.72	4.96	8.68
200	4.85	1.31	6.35	4.96	11.31
300	5.75	1.31	8.84	4.96	13.80

1/ Pieces per shipment same as BC-DC-701.
2/ REA piece cost and shipment costs from this appendix.

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Examiner's Allocation of REA Domestic Air Express Expenses
Into Shipment and Piece Related Categories
For Year Ended December 27, 1970
($ 000)

Account Description	As Allocated To Domestic Air Express 1/	Related to Shipments	Related to Pieces	Overhead
Summary				
Equipment Maintenance	$ 3,403	$ 3,301	$ 102	--
Transportation	34,885	27,447	6,520	$ 918
Terminal	10,385	3,516	6,130	739
Operations	327	--	--	327
Traffic	589	--	--	589
Insurance	1,183	1,027	6	150
Marketing	1,898	111	--	1,787
Finance and Administration	2,123	--	--	2,123
Personnel	(821)	--	--	(821)
Executive	671	--	--	671
General	2,852	--	--	2,852
Depreciation	609	446	163	--
Taxes	444	354	52	38
Total Operating Expenses	$58,548	$36,202	$12,973	$9,373
Adjustment for "Other" Revenues	383	384	--	--
Adjusted Operating Expenses	$58,164	$35,818	$12,973	$9,373
Ratio of Overhead to Direct Assignments				19.21%
Distribution of Overhead		6,881	2,492	
Total Shipment and Piece Related Expense	$58,164	$42,699	$15,465	
Return and Taxes @0.01513 (Appendix C-2)	886	652	234	
Total Shipment and Piece Related Costs	$59,050	$43,351	$15,699	
Domestic Shipments and Pieces		8,252,953	11,968,132	
Unit Costs				
Shipment and Piece Related Costs		4.96 2/	1.31	

1/ See Appendix C-1.
2/ Less 29¢ for Value Charges, C.O.D. Fees, and other Accessorial Charges.

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Examiner's Allocation of REA Domestic Air Express Expenses Into Shipment and Piece Related Categories 26 Weeks Ended June 28, 1970 (in $000)

Line No.	Maintenance Expense Account No.	Description	Allocated On The Basis Of --	As Allocated To Domestic Air Express 1/	Related to -- Shipments	Pieces	Overhead
1	002-02	Building Repairs	Pieces	12		12	--
2	010-01	Auto Repairs - Salaries - Other	Shipments	651	651	--	--
3	317-00	Payroll Taxes	Shipments	78	78	--	--
4	032	Health & Welfare & Benefits	Shipments	40	40	--	--
5	010-02	Auto Repairs - Expenses - Other	Shipments	706	706	--	--
6	032-03	Consultants Fees - Mainstem	Shipments	20	20	--	--
7	018-01	Office Equipment - Salaries	Pieces	--	--	--	--
8	317-00	Payroll Taxes	--	--	--	--	--
9	032	Health & Welfare & Benefits	--	--	--	--	--
10	018-03	Office Equipment Repairs - Expenses	Pieces	32	--	32	--
11	022-01	Truck Repairs - Salaries	Pieces	8	--	8	--
12	317-00	Payroll Taxes	Pieces	1	--	1	--
13	032	Health & Welfare & Benefits	Pieces	--	--	--	--
14	022-03	Truck Repairs - Expenses	Pieces	43	--	43	--
15		Sum of Lines 1 through 14		$1,591	$1,495	$ 96	--
16		Percentage		100.00%	93.97%	6.03%	--
17	026-00	Line Equipment Repairs	Line 16, Above	6	6	--	--
18	030-00	Retirements	Line 16, Above	6	6	--	--
19	024-00	Garage Equipment Repairs	Line 16, Above	1	1	--	--
20	028-00	Shop Equipment Repairs	Line 16, Above	1	1	--	--
21	029-00	Miscellaneous Equipment Repairs	Line 16, Above	7	7	--	--
22		Sum of Lines 15 and 17 through 21		$1,612	$1,516	96	--
23		Percentage		100.00%	94.04%	5.96%	--
24	001-01	Superintendence - Salaries	Line 21, Above	$ 73	69	4	--
25	317-00	Payroll Taxes	Line 21, Above	9	8	1	--
26	032	Health & Welfare & Benefits	Line 21, Above	4	4	--	--
27	001-03	Superintendence - Expenses	Line 21, Above	17	16	1	--
28		Total Maintenence Expense (Sum of Lines 22, 24 and 27)		$1,715	$1,613	$ 102	--

1/ See Appendix C-1.

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Investigation Of Air Express Rates - Docket 22387

Examiner's Allocation of REA Domestic Air Express Expenses
Into Shipment and Piece Related Categories
26 Weeks Ended June 28, 1970
(in $000)

Transportation Expenses

Line No.	Account No.	Description	Allocated On The Basis Of --	As Allocated To Domestic Air Express 1/	Related to -- Shipments	Pieces	Overhead
1	038-01	Office Employees - Clerical	Shipments	$ 5,994	$ 5,994	--	--
2	317-00	Payroll Taxes	Shipments	726	726	--	--
3	052	Health & Welfare & Benefits	Shipments	613	613	--	--
4	038-02	Office Employees - Platform	Pieces	3,008	--	$3,008	--
5	317-00	Payroll Taxes	Pieces	357	--	357	--
6	052	Health & Welfare & Benefits	Pieces	308	--	308	--
7	039-00	Commissions	Shipments	137	137	--	--
8	040-00	Office Supplies and Expenses	Pieces	717	--	717	--
9	041-00	Terminal Rent and Expenses	Pieces	839	--	839	--
10	042-00	Vehicle Employees - P & D	Shipment	6,732	6,732	--	--
11	317-00	Payroll Taxes	Shipment	801	801	--	--
12	052	Health & Welfare & Benefits	Shipment	688	688	--	--
13		Sum of Lines 1 through 12		$20,926	$15,691	$5,229	--
14		Percentage		100.00%	75.00%	25.00%	--
15	043-00	Garage Employees	Line 14, Above	$ 302	$ 227	$ 75	--
16	317-00	Payroll Taxes	Line 14, Above	36	27	9	--
17	052	Health & Welfare & Benefits	Line 14, Above	31	23	8	--
18	044-01	Short Term Leases	Line 14, Above	38	29	9	--
19	044-02	Long Term Leases	Line 14, Above	345	259	86	--
20	044-03	Miscellaneous	Line 14, Above	803	602	201	--
21	045-00	Drayage	Shipments	48	36	12	--
22	048-00	Stationery and Printing	Shipments	213	160	53	--
23		Sum of Lines 13 and 15 through 22		$22,736	$17,034	$5,682	--
24		Percentage		100.00%	75.01%	24.99%	--
25	037-01	Superintendence - Salaries	Line 24, Above	$ 423	$ 317	$ 106	--
26	317-00	Payroll Taxes	Line 24, Above	50	38	12	--
27	052	Health & Welfare & Benefits	Line 24, Above	43	32	11	--
28	037-03	Superintendence - Expenses	Line 24, Above	90	68	22	--
29		Total Trasnportation Expense		$23,342	$17,509	$5,833	--

1/ See Appendix C-1.

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Examiner's Allocation of REA Domestic Air Express Expenses
Into Shipment and Piece Related Categories
26 Weeks Ended June 28, 1970
(in $000)

Line No.	Account No.	Description	Allocated On The Basis Of --	As Allocated To Domestic Air Express 1/	Related to -- Shipments	Pieces	Overhead
		Traffic Expense					
1		Total Traffic Expense	Assigned Entirely To Overhead	$ 589	--	--	$589
		Insurance Expense					
2	049-01	Claim Salaries	Shipments	52	$ 52	--	--
3	317-00	Payroll Taxes & Benefits	Shipments	7	7	--	--
4	049-02	Miscellaneous	Shipments	18	18	--	--
5	049-04	Air Freight Losses	Shipments	560	560	--	--
6	049-05	Prevention and Security - Salaries	Shipments	113	113	--	--
7	317-00	Payroll Taxes & Benefits	Shipments	15	15	--	--
8	050-00	Property Damage	Overhead	--	--	--	--
9	051-00	Personal Injuries	Shipments	2	2	--	--
10	058-00	Fidelity Bond Premiums	Shipments	5	5	--	--
11	059-00	Pensions	Overhead	150	--	--	150
12	057-01	Automotive, Comprehensive, Excess Liability and Self-Insurance	Shipments	218	218	--	--
	057-02	Miscellaneous Insurance					
13		Buildings and Boilers	Pieces	6	--	6	--
14		Auto, Travel, and Misc. Liability	Shipments	37	37	--	--
15		Total Insurance Expense		$1,183	$1,027	$ 6	$150

1/ See Appendix C-1.

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Examiner's Allocation of REA Domestic Air Express Expenses
Into Shipment and Piece Related Categories
26 Weeks Ended June 28, 1970
(in $000)

Line No.	Account No.	Description	Allocated On The Basis Of --	As Allocated To Domestic Air Express 1/	Related to -- Shipments	Pieces	Overhead
General Expense							
1		Total General Expense	Assigned Entirely To Overhead	$2,852	--	--	$2,852
Depreciation							
2	031-03	Buildings	Pieces	52	--	52	--
3	031-11	Automobiles - Other	Shipments	435	$435	--	--
4	031-19	Office Equipment	Pieces	80	--	80	--
5	031-23	Trucks	Pieces	31	--	31	--
6	031-25	Garage Equipment	Appendix C-3, Page 2, Line 16	1	1	--	--
7	031-29	Shop Equipment	Appendix C-3, Page 2, Line 16	3	3	--	--
8	031-31	Miscellaneous Equipment	Appendix C-3, Page 2, Line 16	7	7	--	--
9		Total Depreciation		$609	$446	$163	--
10		Percentage		100.00%	73.23%	26.77%	
Taxes							
1	317-00	Ad Valorem Tax	Line 10, Above	$133	$ 97	$ 36	$--
2	317-00	On Earnings	Overhead	27	--	--	27
3	317-00	Property Operated and Fuel	Overhead	11	--	--	11
4	317-00	Miscellaneous	Line 16, Page 2	273	257	16	--
5		Total Taxes Other Than Payroll		$444	$354	$ 52	$ 38

1/ See Appendix C-1.

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Examiner's Allocation of REA Domestic Air Express Expenses Into Shipment and Piece Related Categories For 26 Weeks Ended December 27, 1970

($ 000)

Account No.	Description	Allocated On The Basis Of --	As Allocated To Domestic Air Express 1/	Related to -- Shipments	Pieces	Overhead
Equipment Maintenance						
513	P and D Maintenance	Shipments	$1,448	$1,448	--	--
514	Service Cars	Shipments	60	60	--	--
511	Maintenance Management	Shipments	180	180	--	--
	Total Equipment Maintenance		$1,688	$1,688		
Transportation Maintenance						
522	Line Haul Transportation	Shipments	$ 338	$ 338	--	--
523	P and D Transportation	Shipments	9,600	9,600	--	--
524-04	Taxes and Licences	Overhead	918	--	--	$ 918
524-12	Insurance	Pieces	687	--	$ 687	--
	Total Transportation Maintenance		$11,543	$9,938	$ 687	$ 918
Terminal Expenses						
531	Terminal Management					
531-01	Payroll	Shipments	$ 2,521	$2,521	--	--
531-02	Employee's Welfare	Shipments	586	586	--	--
531-06	Supplies	Shipments	88	88	--	--
531-12	Insurance	Shipments	321	321	--	--
531-19	Commission Agents	Overhead	739	--	--	$ 739
--	All other 531 Accounts	Pieces	1,121	--	$1,121	--
532	Cargo Handling	Pieces	4,886	--	4,886	--
534	Property Maintenance	Pieces	123	--	123	--
	Total Terminal Expenses		$10,385	$3,516	$6,130	$ 739
Operating Management						
541	Operations Management	Overhead	$ 201	--	--	$ 201
542	Fleet Maintenance	Overhead	67	--	--	67
544	Industrial Engineering	Overhead	59	--	--	59
	Total Operating Management		$ 327			$ 327

1/ See Appendix C-1.

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APPENDIX C-3
Page 7 of 8

Investigation Of Air Express Rates - Docket 22387

Examiner's Allocation of REA Domestic Air Express Expenses
Into Shipment and Piece Related Categories
For 26 Weeks Ended December 27, 1970
($000)

Account No.	Description	Allocated On The Basis Of --	As Allocated To Domestic Air Express 1/	Related to -- Shipments	Pieces	Overhead
Marketing Expense						
552	Sales	Overhead	$ 697	--	--	$ 697
553	Freight Claims	Shipments	55	$ 55	--	--
554	Surface Advertising	Overhead	315	--	--	315
555	Air Advertising	Overhead	494	--	--	494
556	Market Research	Overhead	16	--	--	16
557	Traffic	Shipment	42	42	--	--
558	Air Services Management	Overhead	265	--	--	265
559	Foreign Services Management	Shipments	14	14	--	--
	Total Marketing Expense		$1,898	$ 111	--	$1,787
560	Total Finance and Administration	Overhead	$2,123	--	--	$2,123
570	Total Personnel Expenses	Overhead	$ (821)	--	--	$ (821)
590	Total Executive Expenses	Overhead	$ 671	--	--	$ 671

1/ See Appendix C-1.

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Investigation of Air Express Rates - Docket 22387

Air Line Operating Results Under the Interim & Suspended Tariff Rates
Operating Expenses as Computed by the Examiner
1969 and 1970
($-000)

	1969		1970		
	Interim Rate	Suspended Rate	Interim Rate	Suspended Rate	Notes and References
1. Air Express Revenues (48 States)	$ 42,202	$ 43,450	$ 41,554[1/]	$ 42,706	
2. Air Transportation Costs	32,635	32,635	30,061	30,061	Appendix D-1.
3. Ground Costs	16,959	16,959	15,740	15,740	Appendix D-2, plus Substituted Service Expense[2/]
4. Total Costs	$ 49,594	$ 49,594	$ 45,801	$ 45,801	
5. Operating Profit or Loss	$ (7,392)	$ (6,144)	$ (4,247)	$ (3,095)	Line 1 less line 4.
6. Return & Tax Requirement	8,914	8,914	8,260	8,260	Appendix D-3.
7. Net Income or (Loss)	$(16,306)	$(15,058)	$(12,507)	$(11,355)	Line 5 plus line 6.

1/ Appendix C, Lines 2 & 3.
2/ Substituted Service Expense - 1969: $1,412,000; 1970: $1,152,000 (REA-IR-103 & 104).

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APPENDIX D
Page 1 of 1

Investigation Of Air Express Rates - Docket 22387

Allocation of Airline Capacity Expenses to Air Express
1969 and 1970
($ 000)

	Calendar Year 1969			Calendar Year 1970		
	Expense	Return & Tax	Total	Expense	Return & Tax	Total
Capacity Expenses						
Line Haul (by ton miles)	$26,851	$4,968	$31,819	$24,733	$4,575	$29,308
Departure (by pounds)	5,784	1,070	6,854	5,328	986	6,314
Total Line Haul and Departure	$32,635			$30,061		
Return and Tax		$6,038			$5,561	
Total Capacity Expense Including Return and Tax			$38,673			$35,622

Notes: Columns 1 and 4 - PC-401 (Revised); PC-405; and PC Direct Brief, Appendix A, Page 4 of 6.

Columns 2 and 5 - Appendix D-3.

Investigation Of Air Express Rates - Docket 22387

Allocation of Airline Noncapacity Expenses to Air Express
1969 and 1970
($ 000)

Calendar Year 1969			Calendar Year 1970	
FEM* Noncapacity Cost Pool		$193,730		
Less: Direct Assignments to Freight		(2,859)	Total Air Express Noncapacity Costs - 1969	$15,547
Plus: Direct Assignments				
- Traffic Servicing	225		1970 Total Express Volume Change from 1969	(10.3%) 4/
- Reservation and Sales	17	242		
Total FEM Noncapacity Cost Pool		$191,113 1/	1970 Volume at 1969 Express Levels	$13,946
Air Express Tons Enplaned Percent Share to Total FEM Tons Enplaned		8.135% 2/	Escalation to 1970	4.6% 4/
Total Noncapacity Costs		$ 15,547	Estimated 1970 Noncapacity Cost	$14,588
Return on Investment and Tax Requirement		$ 2,876 3/	Return on Investment and Tax Requirement	2,699
Total Noncapacity Costs including Return - 1969		$ 18,423	Total Noncapacity Costs including Return - 1970	$17,287

* Freight, express, mail.

1/ BC Reply Brief, Appendix C-1, Page 3.

2/ PC-421, Page 1 of 2 (200,771 ÷ 2,467,992).

3/ PC-R-873, Page 5 of 6, adjusted to reflect percent allocable to air express; and Appendix D-3.

4/ PC Direct Brief, Appendix A, Pages 4 and 5.

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APPENDIX D-2
Page 1 of 1

Investigation Of Air Express Rates - Docket 22387

Computation of Airline Return and Income Tax Requirements for Air Express Service
1969 and 1970
($ 000)

Item	Trunks & Flying Tiger Mixed Service	Trunks & Flying Tiger All-Cargo Service	Local Service Mixed Service	Local Service All-Cargo Service	Total	Source
Average Investment	$4,641,120	$349,089	$593,672	$503	$5,584,384	PC-44[illegible]
Rate of Return on Investment	12.00%	12.00%	12.35%	12.35%	--	Order 71-4-58 4/9/71
Return Requirements	556,934	41,891	73,318	$ 62	672,205	Line 1 x Line 2
Interest Expense	149,593	12,727	39,741	30	202,091	PC-442 Revised
Return on Equity (Net after Taxes)	407,341	29,116	33,577	32	470,114	Line 3 - Line 4
Income Tax at 40% on Equity Return	376,004	26,920	30,994	30	433,948	Line 5 x $\frac{48}{52}$
Tax & Return on Investment	932,938	68,811	104,312	92	1,106,153	Line 4 + Line 5 + Line 6
Percent Allocable to Air Express - 1969	--	--	--	--	0.8057%	1/
Tax & Return Allocable to Air Express - 1969	--	--	--	--	$ 8,914	Line 7 x Line 8
Total Air Express Operating Expenses - 1969	--	--	--	--	$48,182	Exhibit B, Line 1, Col. 3
Return as % of Operating Expense Under Order 71-4-58	--	--	--	--	18.50%	Line 9 ÷ Line 10
Tax and Return Allocable to Air Express - 1970	--	--	--	--	$ 8,260	Line 11 x $44,649 (Appendix B)

1/ Total cost: (Line 10) ÷ $5,980,048 (PC-444) = 0.8057% for CY1969.

Source: Exhibit PC-R-873, page 5 of 6.

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Airlines' Air Express Costs Including Return and Taxes
($ 000)

		1969 Amount	Source	1970 Amount
	Capacity Costs:			
1.	A. Departure Expense	$ 5,784	Appendix D-1	$ 5,328
2.	Rate of Return Element	18.50%	Appendix D-3	18.50%
3.	Return Element	$ 1,070	Line 1 x Line 2	$ 986
4.	Total Including Return	$ 6,854		$ 6,314
5.	Pounds of Dom. Air Express (000)	258,533	REA-IR-3; PC-401(Rev.)	243,864
6.	Capacity Cost per Departure	$ .02651	Line 4 ÷ Line 5	$ .02589
7.	B. Line-Haul Expenses	$ 26,851	Appendix D-1	$ 24,733
8.	Rate of Return Element	18.50%	Appendix D-3	18.50%
9.	Return Element	$ 4,968	Line 1 x Line 2	$ 4,575
10.	Total Including Return	$ 31,819		$ 29,308
11.	Ton-Miles of Dom. Air Express (000)	108,021	PC-458; PC-401 (Rev.)	101,896
12.	Capacity Cost per Ton-Mile	$ .3429	Line 10 ÷ Line 11 x 107.9%	$ .3103
	Noncapacity Costs:			
13.	Total Noncapacity Costs	$ 15,547	Appendix D-2	$ 14,588
14.	Rate of Return Element	18.50%	Appendix D-3	18.50%
15.	Return Element	$ 2,876		$ 2,699
16.	Total Including Return	$ 18,423		$ 17,287
17.	Add: Substitute Service Expense	$ 1,412	Appendix D, Note 5	$ 1,152
18.	Total Costs	$ 19,835		$ 18,439
19.	Pieces of Air Express (000)	13,704	REA-IR-3	12,722
20.	Cost per Piece	$ 1.45	Line 18 ÷ Line 19	$ 1.46

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Investigation Of Air Express Rates - Docket 22387

Airlines' Costs of Air Express
Shipments by Weight and Distance - 1970
(in $)

Miles	5 lbs.	10 lbs.	15 lbs.	20 lbs.	25 lbs.	50 lbs.	75 lbs.	100 lbs.	200 lbs.	300 lbs.
200	1.88	2.21	2.90	3.32	4.10	6.00	8.16	10.71	21.62	30.26
300	1.98	2.38	3.05	3.67	4.33	6.49	9.28	12.09	23.49	39.67
400	2.05	2.62	3.09	3.62	4.53	6.96	9.74	12.82	24.67	36.54
500	2.08	2.66	3.14	4.02	4.84	7.53	10.82	14.15	26.98	41.02
600	2.18	2.79	3.39	4.05	5.07	8.02	12.17	15.77	28.85	43.24
700	2.15	2.80	3.56	4.33	5.43	8.60	12.08	15.90	30.61	44.75
800	2.28	2.80	3.90	4.37	5.50	8.96	13.46	17.56	31.14	50.64
900	2.28	2.92	3.97	4.66	5.64	9.36	13.51	17.88	35.36	52.57
1000	2.30	2.96	4.06	5.24	6.28	10.27	14.19	18.82	37.69	55.73
1100	2.47	3.17	4.44	5.18	5.40	10.65	16.20	21.09	38.63	58.43
1200	2.38	3.19	4.30	5.43	6.51	11.00	15.88	21.03	40.91	58.34
1300	2.44	3.69	4.86	5.67	6.45	11.21	17.39	22.81	42.81	61.59
1400	2.52	3.53	4.47	5.55	7.03	12.05	17.16	22.83	45.30	65.76
1500	2.51	3.47	4.62	6.00	7.29	12.56	18.92	24.84	46.89	69.84
1600	2.67	3.65	4.93	6.35	7.27	12.81	18.43	24.62	47.62	71.37
1700	2.62	3.80	5.15	6.66	8.00	13.80	19.29	25.75	50.76	7 4
1800	2.67	3.86	5.52	6.43	8.21	14.28	21.20	27.91	53.15	77.16
1900	2.83	3.89	5.16	7.33	8.36	14.53	20.94	27.76	56.82	88.34
2000	2.81	4.08	5.59	7.02	8.58	15.15	23.44	30.65	56.58	88.36
2100	2.97	4.31	5.85	6.93	8.71	15.54	22.22	29.70	60.47	89.35
2200	2.88	4.30	5.71	8.02	8.94	16.02	22.94	30.67	61.68	92.77
2300	3.35	4.29	6.06	7.65	9.30	16.63	24.56	32.53	62.17	93.07
2400	3.07	4.45	6.26	7.73	9.52	17.12	25.19	33.44	65.67	97.93
2500	3.03	4.67	6.54	8.85	9.80	17.67	25.67	34.17	68.01	103.84
2600	3.29	4.97	6.58	8.54	10.87	18.99	26.27	35.03	70.61	106.20
2700	3.14	5.08	6.78	8.16	10.13	18.50	27.40	36.42	73.57	112.18
2800	3.21	4.91	6.85	8.71	10.74	19.37	28.51	37.78	74.30	111.82
2900	3.27	5.03	7.03	8.94	11.03	19.94	29.38	38.93	76.60	115.27
3000	3.38	5.13	7.18	9.15	11.29	20.46	30.16	39.97	78.68	118.39
3500	3.64	5.65	7.96	10.19	12.59	23.06	34.06	45.17	89.08	133.99
4000	3.90	6.17	8.74	11.23	13.89	25.66	37.96	50.37	99.48	149.59
4500	4.16	6.69	9.52	12.27	15.19	28.26	41.86	55.57	109.88	165.19
5000	4.42	7.21	10.30	13.31	16.49	30.86	45.76	60.77	120.28	180.79

Source: Appendix D-4, page 1.

Investigation Of Air Express Rates - Docket 22387

Lawful Air Express Rates as Found by Examiner

Scale (Miles-00) Weight Breaks	1 & 2	3	4	5	6	7	8	9	10	11
5 Pounds	$ 8.22	$ 8.32	$ 8.39	$ 8.42	$ 8.52	$ 8.49	$ 8.62	8.62	$ 8.64	$ 8.81
10	8.57	8.74	8.98	9.02	9.15	9.16	9.16	9.28	9.32	9.53
15	9.33	9.48	9.52	9.57	9.82	9.99	10.33	10.40	10.49	10.87
20	9.87	10.22	10.17	10.57	10.60	10.88	10.92	11.21	11.79	11.73
25	10.76	10.99	11.19	11.50	11.73	12.09	12.16	12.30	12.94	12.06
50	13.29	13.78	14.25	14.82	15.31	15.89	16.25	16.65	17.56	17.94
75	16.15	17.28	17.74	18.82	20.17	20.08	21.46	21.51	22.19	24.20
100	19.39	20.77	21.50	22.83	24.45	24.58	26.24	26.56	27.50	29.77
200	32.93	34.80	35.98	38.29	40.16	41.92	42.45	46.67	49.00	49.94
300	44.06	53.47	50.34	54.82	57.04	58.55	64.44	66.37	69.53	72.23

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APPENDIX E
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Investigation Of Air Express Rates - Docket 22387

Lawful Air Express Rates as Found by Examiner

Scale (Miles-00) Weight Breaks	12	13	14	15	16	17	18	19	20	21
5 Pounds	$ 8.72	$ 8.78	$ 8.86	$ 8.85	$ 9.01	$ 8.96	$ 9.01	$ 9.17	$ 9.15	$ 9.31
10	9.55	10.05	9.89	9.83	10.01	10.16	10.22	10.25	10.44	10.67
15	10.73	11.29	10.90	11.05	11.36	11.58	11.95	11.59	12.02	12.28
20	11.98	12.22	12.10	12.55	12.90	13.21	12.98	13.88	13.57	13.48
25	13.17	13.11	13.69	13.95	13.93	14.66	14.87	15.02	15.24	15.37
50	18.29	18.50	19.34	19.85	20.10	21.09	21.57	21.82	22.44	22.83
75	23.88	25.39	25.16	26.92	26.43	27.29	29.20	28.94	31.44	30.22
100	29.71	31.49	31.51	33.52	33.30	34.43	36.59	36.44	39.33	38.38
200	52.22	54.12	56.61	58.20	58.93	62.07	64.46	68.13	67.89	71.78
300	72.14	75.39	79.56	83.64	85.17	92.04	90.96	102.14	102.16	103.15

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Investigation Of Air Express Rates - Docket 22387

Lawful Air Express Rates as Found by Examiner

Scale (Miles-00) / Weight Breaks	22	23	24	25	26	27	28	29
5 Pounds	$ 9.22	$ 9.69	$ 9.41	$ 9.37	$ 9.63	$ 9.48	$ 9.61	$ 9.67
10	10.66	10.65	10.81	11.03	11.33	11.44	11.27	11.39
15	12.14	12.49	12.69	12.97	13.01	13.21	13.28	13.46
20	14.57	14.20	14.28	15.40	15.09	14.71	15.26	15.49
25	15.60	15.96	16.18	16.46	17.53	16.79	17.40	17.69
50	23.31	23.92	24.41	24.96	26.28	25.79	26.66	27.23
75	30.94	32.56	33.19	33.67	34.27	35.40	36.51	37.38
100	39.35	41.21	42.12	42.85	43.71	45.10	46.46	47.61
200	72.99	73.48	76.98	79.32	81.92	84.88	85.61	87.91
300	106.57	106.87	111.73	117.64	120.00	125.98	125.62	129.07

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Investigation Of Air Express Rates - Docket 22387

Lawful Air Express Rates as Found by Examiner

Scale (Miles-00) Weight Breaks	30	35	40	45	50
5 Pounds	$ 9.72	$ 9.98	$10.24	$10.50	$10.76
10	11.49	12.01	12.53	13.05	13.57
15	13.61	14.39	15.17	15.95	16.73
20	15.70	16.74	17.58	18.82	19.86
25	17.95	19.25	20.55	21.85	23.15
50	27.75	30.35	32.95	35.55	38.15
75	38.16	42.06	45.96	49.86	53.76
100	48.65	53.85	59.05	64.25	69.45
200	89.99	100.39	110.79	121.19	131.59
300	132.19	147.79	163.39	178.99	194.59

Investigation Of Air Express Rates - Docket 22387

Examiner's Total Cost for Air Express Shipments
By Weight and Distance and Cost Divisions - 1970
(By Dollars and Percentage Share)

MILES		POUNDS 5	10	15	20	25	50	75	100	200	300
200	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	1.88	2.21	2.90	3.32	4.10	6.00	8.16	10.71	21.62	30.26
	TOT	8.22	8.57	9.33	9.87	10.76	13.29	16.16	19.39	32.93	44.06
	REA	77.	74.	69.	66.	62.	55.	50.	45.	34.	31.
	AIR	23.	26.	31.	34.	38.	45.	50.	55.	66.	69.
300	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	1.98	2.38	3.05	3.67	4.33	6.49	9.28	12.09	23.49	39.67
	TOT	8.32	8.74	9.48	10.22	10.99	13.78	17.28	20.77	34.80	53.47
	REA	76.	73.	68.	64.	61.	53.	46.	42.	32.	26.
	AIR	24.	27.	32.	36.	39.	47.	54.	58.	68.	74.
400	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.05	2.62	3.09	3.62	4.53	6.96	9.74	12.82	24.67	36.54
	TOT	8.39	8.98	9.52	10.17	11.19	14.25	17.74	21.50	35.98	50.34
	REA	76.	71.	68.	64.	60.	51.	45.	40.	31.	27.
	AIR	24.	29.	32.	36.	40.	49.	55.	60.	69.	73.
500	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.08	2.66	3.14	4.02	4.84	7.53	10.82	14.15	26.98	41.02
	TOT	8.42	9.02	9.57	10.57	11.50	14.82	18.82	22.83	38.29	54.82
	REA	75.	71.	67.	62.	58.	49.	43.	38.	30.	25.
	AIR	25.	29.	33.	38.	42.	51.	57.	62.	70.	75.
600	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.18	2.79	3.39	4.05	5.07	8.02	12.17	15.77	28.85	43.24
	TOT	8.52	9.15	9.82	10.60	11.73	15.31	20.17	24.45	40.16	57.04
	REA	74.	70.	65.	62.	57.	48.	40.	36.	28.	24.
	AIR	26.	30.	35.	38.	43.	52.	60.	64.	72.	76.
700	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.15	2.80	3.56	4.33	5.43	8.60	12.08	15.90	30.61	44.75
	TOT	8.49	9.16	9.99	10.88	12.09	15.89	20.08	24.58	41.92	58.55
	REA	75.	69.	64.	60.	55.	46.	40.	35.	27.	24.
	AIR	25.	31.	36.	40.	45.	54.	60.	65.	73.	76.
800	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.28	2.80	3.90	4.37	5.50	8.96	13.46	17.56	31.14	50.64
	TOT	8.62	9.16	10.33	10.92	12.16	16.25	21.46	26.24	42.45	64.44
	REA	74.	69.	62.	60.	55.	45.	37.	33.	27.	21.
	AIR	26.	31.	38.	40.	45.	55.	63.	67.	73.	79.

APPENDIX E-1
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Investigation Of Air Express Rates - Docket 22387

Examiner's Total Cost for Air Express Shipments
By Weight and Distance and Cost Divisions - 1970
(By Dollars and Percentage Share)

MILES		POUNDS									
		5	10	15	20	25	50	75	100	200	300
900	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.28	2.92	3.97	4.66	5.64	9.36	13.51	17.88	35.36	52.57
	TOT	8.62	9.28	10.40	11.21	12.30	16.65	21.51	26.56	46.67	66.37
	REA	74.	69.	62.	58.	54.	44.	37.	33.	24.	21.
	AIR	26.	31.	38.	42.	46.	56.	63.	67.	76.	79.
1000	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.30	2.96	4.06	5.24	6.28	10.27	14.19	18.82	37.69	55.73
	TOT	8.64	9.32	10.49	11.79	12.94	17.56	22.19	27.50	49.00	69.53
	REA	73.	68.	61.	56.	51.	42.	36.	32.	23.	20.
	AIR	27.	32.	39.	44.	49.	58.	64.	68.	77.	80.
1100	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.47	3.17	4.44	5.18	5.40	10.65	16.20	21.09	38.63	58.43
	TOT	8.81	9.53	10.87	11.73	12.06	17.94	24.20	29.77	49.94	72.23
	REA	72.	67.	59.	56.	55.	41.	33.	29.	23.	19.
	AIR	28.	33.	41.	44.	45.	59.	67.	71.	77.	81.
1200	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.38	3.19	4.30	5.43	6.51	11.00	15.88	21.03	40.91	58.34
	TOT	8.72	9.55	10.73	11.98	13.17	18.29	23.88	29.71	52.22	72.14
	REA	73.	67.	60.	55.	51.	40.	34.	29.	22.	19.
	AIR	27.	33.	40.	45.	49.	60.	66.	71.	78.	81.
1300	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.44	3.69	4.86	5.67	6.45	11.21	17.39	22.81	42.81	61.59
	TOT	8.78	10.05	11.29	12.22	13.11	18.50	25.39	31.49	54.12	75.39
	REA	72.	63.	57.	54.	51.	39.	32.	28.	21.	18.
	AIR	28.	37.	43.	46.	49.	61.	68.	72.	79.	82.
1400	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.52	3.53	4.47	5.55	7.03	12.05	17.16	22.83	45.30	65.76
	TOT	8.86	9.89	10.90	12.10	13.69	19.34	25.16	31.51	56.61	79.56
	REA	72.	64.	59.	54.	49.	38.	32.	28.	20.	17.
	AIR	28.	36.	41.	46.	51.	62.	68.	72.	80.	83.
1500	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.51	3.47	4.62	6.00	7.29	12.56	18.92	24.84	46.89	69.84
	TOT	8.85	9.83	11.05	12.55	13.95	19.85	26.92	33.52	58.20	83.64
	REA	72.	65.	58.	52.	48.	37.	30.	26.	19.	16.
	AIR	28.	35.	42.	48.	52.	63.	70.	74.	81.	84.

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Examiner's Total Cost for Air Express Shipments
By Weight and Distance and Cost Divisions - 1970
(By Dollars and Percentage Share)

MILES		POUNDS									
		5	10	15	20	25	50	75	100	200	300
1600	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.67	3.65	4.93	6.35	7.27	12.81	18.43	24.62	47.62	71.37
	TOT	9.01	10.01	11.36	12.90	13.93	20.10	26.43	33.30	58.93	85.17
	REA	70.	64.	57.	51.	48.	36.	30.	26.	19.	16.
	AIR	30.	36.	43.	49.	52.	64.	70.	74.	81.	84.
1700	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.62	3.80	5.15	6.66	8.00	13.80	19.29	25.75	50.76	78.24
	TOT	8.96	10.16	11.58	13.21	14.66	21.09	27.29	34.43	62.07	92.04
	REA	71.	63.	56.	50.	45.	35.	29.	25.	18.	15.
	AIR	29.	37.	44.	50.	55.	65.	71.	75.	82.	85.
1800	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.67	3.86	5.52	6.43	8.21	14.28	21.20	27.91	53.15	77.16
	TOT	9.01	10.22	11.95	12.98	14.87	21.57	29.20	36.59	64.46	90.96
	REA	70.	62.	54.	50.	45.	34.	27.	24.	18.	15.
	AIR	30.	38.	46.	50.	55.	66.	73.	76.	82.	85.
1900	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.83	3.89	5.16	7.33	8.36	14.53	20.94	27.76	56.82	88.34
	TOT	9.17	10.25	11.59	13.88	15.02	21.82	28.94	36.44	68.13	102.14
	REA	69.	62.	55.	47.	44.	33.	28.	24.	17.	14.
	AIR	31.	38.	45.	53.	56.	67.	72.	76.	83.	86.
2000	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.81	4.08	5.59	7.02	8.58	15.15	23.44	30.65	56.58	88.36
	TOT	9.15	10.44	12.02	13.57	15.24	22.44	31.44	39.33	67.89	102.16
	REA	69.	61.	53.	48.	44.	32.	25.	22.	17.	14.
	AIR	31.	39.	47.	52.	56.	68.	75.	78.	83.	86.
2100	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.97	4.31	5.85	6.93	8.71	15.54	22.22	29.70	60.47	89.35
	TOT	9.31	10.67	12.28	13.48	15.37	22.83	30.22	38.38	71.78	103.15
	REA	68.	60.	52.	49.	43.	32.	26.	23.	16.	13.
	AIR	32.	40.	48.	51.	57.	68.	74.	77.	84.	87.
2200	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	2.88	4.30	5.71	8.02	8.94	16.02	22.94	30.67	61.68	92.77
	TOT	9.22	10.66	12.14	14.57	15.60	23.31	30.94	39.35	72.99	106.57
	REA	69.	60.	53.	45.	43.	31.	26.	22.	15.	13.
	AIR	31.	40.	47.	55.	57.	69.	74.	78.	85.	87.

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Examiner's Total Cost for Air Express Shipments
By Weight and Distance and Cost Divisions - 1970
(By Dollars and Percentage Share)

MILES		POUNDS									
		5	10	15	20	25	50	75	100	200	300
2300	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	3.35	4.29	6.06	7.65	9.30	16.63	24.56	32.53	62.17	93.07
	TOT	9.69	10.65	12.49	14.20	15.96	23.92	32.56	41.21	73.48	106.87
	REA	65.	60.	51.	46.	42.	30.	25.	21.	15.	13.
	AIR	35.	40.	49.	54.	58.	70.	75.	79.	85.	87.
2400	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	3.07	4.45	6.26	7.73	9.52	17.12	25.19	33.44	65.67	97.93
	TOT	9.41	10.81	12.69	14.28	16.18	24.41	33.19	42.12	76.98	111.73
	REA	67.	59.	51.	46.	41.	30.	24.	21.	15.	12.
	AIR	33.	41.	49.	54.	59.	70.	76.	79.	85.	88.
2500	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	3.03	4.67	6.54	8.85	9.80	17.67	25.67	34.17	68.01	103.84
	TOT	9.37	11.03	12.97	15.40	16.46	24.96	33.67	42.85	79.32	117.64
	REA	68.	58.	50.	43.	40.	29.	24.	20.	14.	12.
	AIR	32.	42.	50.	57.	60.	71.	76.	80.	86.	88.
2600	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	3.29	4.97	6.58	8.54	10.87	18.99	26.27	35.03	70.61	106.20
	TOT	9.63	11.33	13.01	15.09	17.53	26.28	34.27	43.71	81.92	120.00
	REA	66.	56.	49.	43.	38.	28.	23.	20.	14.	12.
	AIR	34.	44.	51.	57.	62.	72.	77.	80.	86.	89.
2700	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	3.14	5.08	6.78	8.16	10.13	18.50	27.40	36.42	73.57	112.18
	TOT	9.48	11.44	13.21	14.71	16.79	25.79	35.40	45.10	84.88	125.98
	REA	67.	56.	49.	45.	40.	28.	23.	19.	13.	11.
	AIR	33.	44.	51.	55.	60.	72.	77.	81.	87.	89.
2800	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	3.27	4.91	6.85	8.71	10.74	19.37	28.51	37.78	74.30	111.82
	TOT	9.61	11.27	13.28	15.26	17.40	26.66	36.51	46.46	85.61	125.62
	REA	66.	56.	48.	43.	38.	27.	22.	19.	13.	11.
	AIR	34.	44.	52.	57.	62.	73.	78.	81.	87.	89.
2900	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	3.33	5.03	7.03	8.94	11.03	19.94	29.38	38.93	76.60	115.27
	TOT	9.67	11.39	13.46	15.49	17.69	27.23	37.38	47.61	87.91	129.07
	REA	66.	56.	48.	42.	38.	27.	21.	18.	13.	11.
	AIR	34.	44.	52.	58.	62.	73.	79.	82.	87.	89.

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Examiner's Total Cost for Air Express Shipments
By Weight and Distance and Cost Divisions - 1970
(By Dollars and Percentage Share)

MILES		POUNDS									
		5	10	15	20	25	50	75	100	200	300
3000	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	3.38	5.13	7.18	9.15	11.29	20.46	30.16	39.97	78.68	118.39
	TOT	9.72	11.49	13.61	15.70	17.95	27.75	38.16	48.65	89.99	132.19
	REA	65.	55.	47.	42.	37.	26.	21.	18.	13.	10.
	AIR	35.	45.	53.	58.	63.	74.	79.	82.	87.	90.
3500	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	3.64	5.56	7.96	10.19	12.59	23.06	34.06	45.17	89.08	133.99
	TOT	9.98	12.01	14.39	16.74	19.25	30.35	42.06	53.85	100.39	147.79
	REA	64.	53.	45.	39.	35.	24.	19.	16.	11.	9.
	AIR	36.	47.	55.	61.	65.	76.	81.	84.	89.	91.
4000	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	3.90	6.17	8.74	11.23	13.89	25.66	37.96	50.37	99.48	149.59
	TOT	10.24	12.53	15.17	17.78	20.55	32.95	45.96	59.05	110.79	163.39
	REA	62.	51.	42.	37.	32.	22.	17.	15.	10.	8.
	AIR	38.	49.	58.	63.	68.	78.	83.	85.	90.	92.
4500	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	4.16	6.69	9.52	12.27	15.19	28.26	41.86	55.57	109.88	165.19
	TOT	10.50	13.05	15.95	18.82	21.85	35.55	49.86	64.25	121.19	178.99
	REA	60.	49.	40.	35.	31.	21.	16.	14.	9.	8.
	AIR	40.	51.	60.	65.	69.	79.	84.	86.	91.	92.
5000	REA	6.34	6.36	6.43	6.55	6.66	7.29	8.00	8.68	11.31	13.80
	AIR	4.42	7.21	10.30	13.31	16.49	30.86	45.76	60.77	120.28	180.79
	TOT	10.76	13.57	16.73	19.86	23.15	38.15	53.76	69.45	131.59	194.59
	REA	59.	47.	38.	33.	29.	19.	15.	12.	9.	7.
	AIR	41.	53.	62.	67.	71.	81.	85.	88.	91.	93.

Source: Appendix C-3 for REA costs.
Appendix D-4 for Air Line costs.

Comparison of Lawful Air Express Rates with Air Carrier Freight Rates, Air Freight Forwarder Rates, and REA Surface Express Charges

Pounds		NYC-BOS 186 mi.	NYC-CLE 424 mi.	NYC-DTT 508 mi.	NYC-CHI 740 mi.	NYC-DAL 1,384 mi.	CHI-LAX 1,746 mi.	NYC-LAX 2,474 mi.	NYC-SFO 2,587 mi.
5	Examiner's	$ 8.22	$ 8.39	$ 8.42	$ 8.49	$ 8.86	$ 8.96	$ 9.37	$ 9.63
	Air Freight 1/	21.35	20.35	20.35	20.70	22.85	23.10	32.10	34.40
	Air Freight Forwarders 2/	10.53	10.20	11.44	10.94	12.25	11.79	11.84	12.27
	REA Surface Express 3/	10.58	12.07	12.56	13.00	15.53	17.07	19.33	19.49
10	Examiner's	8.57	8.98	9.02	9.16	9.89	10.16	11.03	11.33
	Air Freight	21.35	20.35	20.35	20.70	22.85	23.10	32.10	34.40
	Air Freight Forwarders	13.43	12.57	14.37	13.87	15.30	14.85	14.96	15.47
	REA Surface Express	10.58	12.07	12.56	13.00	15.53	17.07	19.33	19.49
25	Examiner's	10.76	11.19	11.50	12.09	13.69	14.66	16.46	17.53
	Air Freight	21.35	20.35	20.35	20.70	22.85	23.10	32.10	34.40
	Air Freight Forwarders	15.99	14.90	16.86	16.75	19.73	19.74	21.00	22.12
	REA Surface Express	10.58	12.07	12.56	13.00	15.53	17.07	19.33	19.49
50	Examiner's	13.29	14.25	14.82	15.89	19.34	21.09	24.96	26.28
	Air Freight	21.35	20.35	20.35	20.70	22.85	23.10	32.10	34.40
	Air Freight Forwarders	18.49	17.41	19.54	19.98	25.22	26.55	29.61	31.67
	REA Surface Express	11.74	13.99	14.71	15.37	19.22	21.47	24.72	25.16
75	Examiner's	16.16	17.74	18.82	20.08	25.16	27.29	33.67	34.27
	Air Freight	21.35	20.35	20.35	22.70	29.60	30.60	42.85	45.90
	Air Freight Forwarders	20.71	19.64	21.97	22.54	31.71	33.39	38.42	41.49
	REA Surface Express	12.84	15.86	16.74	17.73	22.85	25.87	30.33	30.82
200	Examiner's	32.93	35.98	38.29	41.92	56.61	62.07	79.32	81.92
	Air Freight	25.80	27.00	27.00	33.70	50.90	52.30	70.80	72.50
	Air Freight Forwarders	36.13	34.92	38.72	42.80	49.73	68.65	83.01	91.07
	REA Surface Express	25.00	32.36	34.68	37.10	49.64	57.22	68.34	68.72

1/ American Airlines (See Page 2).
2/ Average of five forwarders (See Page 2).
3/ PC-R-506; includes pickup and delivery

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APPENDIX F
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Sources:

Emery Freight Corp., Air Freight Rate Tariff No. GC-2, C.A.B. No. 38 and Air Freight Pickup and Delivery Tariff No. 8, C.A.B. No. 53.

Airborne Freight Corp., Rate Tariff No. 5-A, C.A.B. No. 22.

Wings & Wheels Express, Inc., Air Freight Rate Tariff No. GC-8, C.A.B. No. 13 and Air Freight Pickup and Delivery Tariff No. 2, C.A.B. 11.

Novo Air Freight Corp., Air Freight Tariff No. 2, C.A.B. No. 42, and Pickup and Delivery Tariff No. 1, C.A.B., No. 43.

Shulman Air Freight, General Commodity Tariff, No. 4-A, C.A.B. No. 8.

Airline Tariff Publishers, Agent, Official Air Freight Rate Tariff No. 2, C.A.B. No. 8, and Official Air Freight Pickup and Delivery Tariff, No. 3C, C.A.B. No. 19.

Note: All rates taken from the latest tariffs on file in the Tariffs Section, Civil Aeronautics Board, March 7, 1972.

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Interim and Suspended Tariff Rates Compared with 1970 Air Line and REA Costs Including Tax and Return

DOMESTIC

Scale and Weight Breaks	Air Line Plus REA Costs 1/	Interim Air Express Rates		Suspended Air Express Rates	
		Charge	Difference	Charge	Difference
Scale 2					
5 pounds	$ 8.22	$ 8.50	$ .28	$ 8.50	$ .28
15	9.33	8.50	(.83)	10.60	1.27
25	10.76	8.50	(2.26)	11.28	.52
50	13.29	8.50	(4.79)	14.17	.88
75	16.16	9.50	(6.66)	14.56	(1.60)
200	32.93	21.50	(11.43)	25.64	(7.29)
Scale 6					
5 pounds	8.52	8.50	(.02)	8.50	(.02)
15	9.82	8.55	(1.27)	10.99	1.17
25	11.73	10.00	(1.73)	12.25	.52
50	15.31	14.15	(1.16)	16.15	.84
75	20.17	17.65	(2.52)	17.55	(2.62)
200	40.16	37.70	(2.46)	28.12	(12.04)
Scale 10					
5 pounds	8.64	8.50	(.14)	8.50	(.14)
15	10.49	9.95	(.54)	11.39	.90
25	12.94	12.45	(.49)	13.28	.34
50	17.56	17.88	.32	18.25	.69
75	22.19	22.69	.50	22.15	(.04)
200	49.00	46.50	(2.50)	41.18	(7.82)
Scale 14					
5 pounds	8.86	8.50	(.36)	8.50	(.36)
15	10.90	11.40	.50	11.90	1.00
25	13.69	14.30	.61	14.55	.86
50	19.34	20.53	1.19	20.85	1.51
75	25.16	26.77	1.61	26.43	1.27
200	56.61	58.10	1.49	51.98	(4.63)

1/ See page 2 footnotes.

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APPENDIX G
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Interim and Suspended Tariff Rates Compared with 1970 Air Line and REA Costs
Including Tax and Return

DOMESTIC

Scale and Weight Breaks	Air Line Plus REA Costs	Interim Air Express Rates		Suspended Air Express Rates	
		Charge	Difference	Charge	Difference
Scale 22					
5 pounds	$ 9.22	$ 8.50	$ (.72)	$ 8.50	$ (.74)
15	12.14	13.05	.91	13.05	.91
25	15.60	17.46	1.86	17.46	1.86
50	23.31	25.94	2.63	25.88	2.57
75	30.94	34.22	3.28	33.76	2.82
200	72.99	76.30	3.31	71.97	(1.12)
Scale 29					
5 pounds	9.61	8.50	(1.11)	8.50	(1.11)
15	13.46	14.05	.59	14.05	.59
25	17.69	19.80	2.11	19.80	2.11
50	27.23	31.20	3.97	31.20	3.97
75	37.38	41.10	3.72	41.47	4.09
200	87.91	97.70	9.79	96.72	8.81

Source: Column (2) from Appendixes E and E-1.
Columns (3) and (5) from Agent G. T. Miano's Tariff, C.A.B. No. 1.

Note: Column (3) charge on pages 1 and 2 plus $1.00 equal current charges effective 11/29/71 (Order 71-11-98).

Interim and Suspended Tariff Rates Compared with 1970 Air Line and REA Costs Including Tax and Return

PUERTO RICO

Scale and Weight Breaks	Air Line Plus REA Costs	Interim Air Express Rates Charge	Interim Air Express Rates Difference	Suspended Air Express Rates Charge	Suspended Air Express Rates Difference
Scale 90 (2,500 miles)					
5 pounds	$ 9.37	$ 8.50	$ (.87)	$ 8.50	$ (.87)
15	12.97	14.30	1.33	14.30	1.33
25	16.46	20.30	3.84	20.30	3.84
50	24.96	35.30	10.34	35.30	10.34
75	33.67	50.30	16.63	50.30	16.63
200	79.32	130.50	51.18	130.50	51.18
Scale 95 (3,000 miles)					
5 pounds	9.72	8.95	(.77)	8.95	(.77)
15	13.61	15.90	2.29	15.90	2.29
25	17.95	22.85	4.90	22.85	4.90
50	27.75	40.25	12.50	40.25	12.50
75	38.16	57.65	19.49	57.65	19.49
200	89.99	150.00	60.01	150.00	60.01
Scale 100 (3,500 miles)					
5 pounds	9.98	9.95	(.03)	9.95	(.03)
15	14.39	18.00	3.61	18.00	3.61
25	19.25	25.90	6.65	25.90	6.65
50	30.35	45.70	15.35	45.70	15.35
75	42.06	65.50	23.44	65.50	23.44
200	100.39	170.50	70.11	170.50	70.11
Scale 105 (4,000 miles)					
5 pounds	10.24	10.70	.46	10.70	.46
15	15.17	19.60	4.43	19.60	4.43
25	20.55	28.45	7.90	28.45	7.90
50	32.95	50.65	17.70	50.65	17.70
75	45.96	72.85	26.89	72.85	26.89
200	110.79	190.00	79.21	190.00	79.21

Note: See page 4 for footnotes.

Investigation Of Air Express Rates - Docket 22387

Interim and Suspended Tariff Rates Compared with 1970 Air Line and REA Costs
Including Tax and Return

PUERTO RICO

Scale and Weight Breaks	Air Line Plus REA Costs	Interim Air Express Rates Charge	Interim Air Express Rates Difference	Suspended Air Express Rates Charge	Suspended Air Express Rates Difference
Scale 110 (4,500 miles)					
5 pounds	$ 11.50	$ 11.75	$ .25	$ 11.75	$ .25
15	15.95	21.70	5.75	21.70	5.75
25	21.85	31.50	9.65	31.50	9.65
50	35.55	56.10	20.55	56.10	20.55
75	49.86	80.70	30.84	80.70	30.84
200	121.19	210.50	89.31	210.50	89.31
Scale 115 (5,000 miles)					
5 pounds	10.76	12.50	1.74	12.50	1.74
15	16.73	23.30	6.57	23.30	6.57
25	23.15	34.05	10.90	34.05	10.90
50	38.15	61.05	22.90	61.05	22.90
75	53.76	88.05	34.29	88.05	34.29
200	131.59	230.00	98.41	230.00	98.41

Source: Column (2) from Appendixes E and E-1.
Columns (3) and (5) from Agent G. T. Miano's Tariff C.A.B. no. 1.

Note: Column (3) charges on pages 3 and 4 plus $1.00 equal current charges effective 11/29/71 (Order 71-11-98).

Investigation Of Air Express Rates - Docket 22387

Interim and Suspended Tariff Rates Compared with 1970 Air Line and REA Costs
Including Tax and Return

CANADA

Scale and Weight Breaks	Air Line Plus REA Costs	Interim Air Express Rates Charge	Interim Air Express Rates Difference	Proposed Air Express Rates Charge	Proposed Air Express Rates Difference
Scale 43 (400 miles)					
5 pounds	$ 8.39	$ 8.50	$ .11	$ 8.50	$ .11
15	9.52	8.50	(1.02)	10.79	1.27
25	11.19	8.50	(2.69)	11.76	.57
50	14.25	9.50	(4.75)	15.16	.91
75	17.74	13.00	(4.74)	16.06	(1.68)
200	35.98	33.00	(2.98)	36.00	.02
Scale 47 (800 miles)					
5 pounds	8.62	8.50	(.12)	8.50	(.12)
15	10.33	8.50	(1.83)	11.20	.87
25	12.16	10.00	(2.16)	12.79	.63
50	16.25	17.50	1.25	17.50	1.25
75	21.46	25.00	3.54	25.00	3.54
200	42.45	65.00	22.55	65.00	22.55
Scale 51 (1,200 miles)					
5 pounds	8.72	8.50	(.22)	8.50	(.22)
15	10.73	9.40	(1.33)	11.63	.90
25	13.17	14.00	.83	14.00	.83
50	18.29	25.50	7.21	25.50	7.21
75	23.88	37.00	13.12	37.00	13.12
200	52.22	97.00	44.78	97.00	44.78

Note: See page 6 for footnotes.

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Investigation Of Air Express Rates - Docket 22387

Interim and Suspended Tariff Rates Compared with 1970 Air Line and REA Costs
Including Tax and Return

CANADA

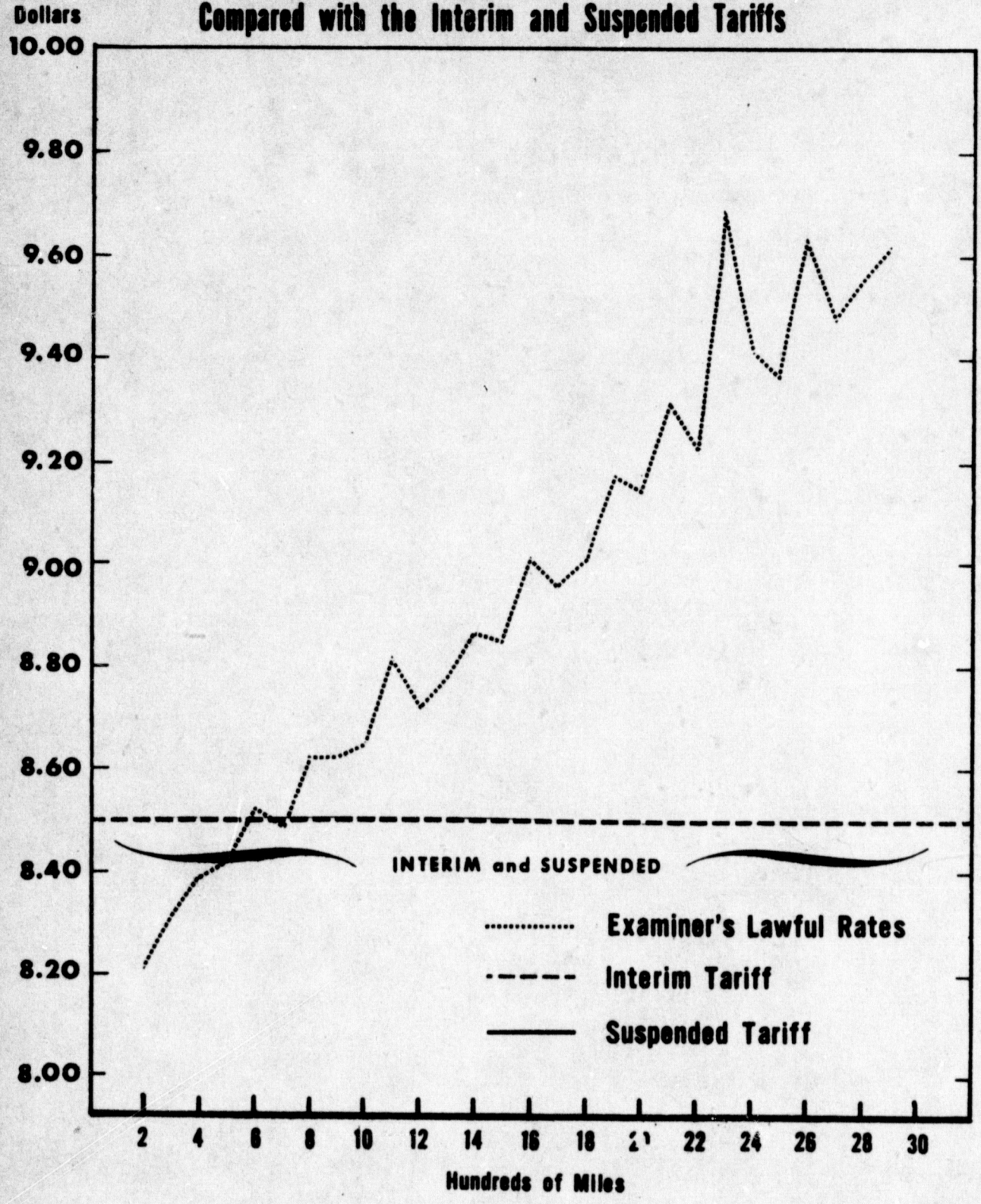
Scale and Weight Breaks	Air Line Plus REA Costs	Interim Air Express Rates Charge	Interim Air Express Rates Difference	Proposed Air Express Rates Charge	Proposed Air Express Rates Difference
Scale 55 (1,600 miles)					
5 pounds	$ 9.01	$ 8.50	$ (.51)	$ 8.50	$ (.51)
15	11.36	11.80	.44	12.18	.82
25	13.93	18.00	4.07	18.00	4.07
50	20.10	33.50	13.40	33.50	13.40
75	26.43	49.00	22.57	49.00	22.57
200	58.93	129.00	70.07	129.00	70.07
Scale 59 (2,000 miles)					
5 pounds	9.15	8.50	(.65)	8.50	(.65)
15	12.02	14.20	2.18	14.20	2.18
25	15.24	22.00	6.76	22.00	6.76
50	22.44	41.50	19.06	41.50	19.06
75	31.44	61.00	29.56	61.00	29.56
200	67.89	161.00	93.11	161.00	93.11
Scale 63 (2,400 miles)					
5 pounds	9.41	8.50	(.91)	8.50	(.91)
15	10.81	16.60	5.79	16.60	5.79
25	16.18	26.00	9.82	26.00	9.82
50	24.41	49.50	25.09	49.50	25.09
75	33.19	73.00	39.81	73.00	39.81
200	76.98	193.00	116.02	193.00	116.02

Source: Column (2) from Appendixes E and E-1.
Column (3) from Agent G. T. Miano's tariff C.A.B. No. 1.
Column (5) to be effective 4/1/72. Rates were to be effective 7/27/70 but have been postponed as set forth in supplement to the tariff.

Note: Column (3) charges on pages 5 and 6 plus $1.00 equal current charges effective 12/12/71 (Order 71-11-98).

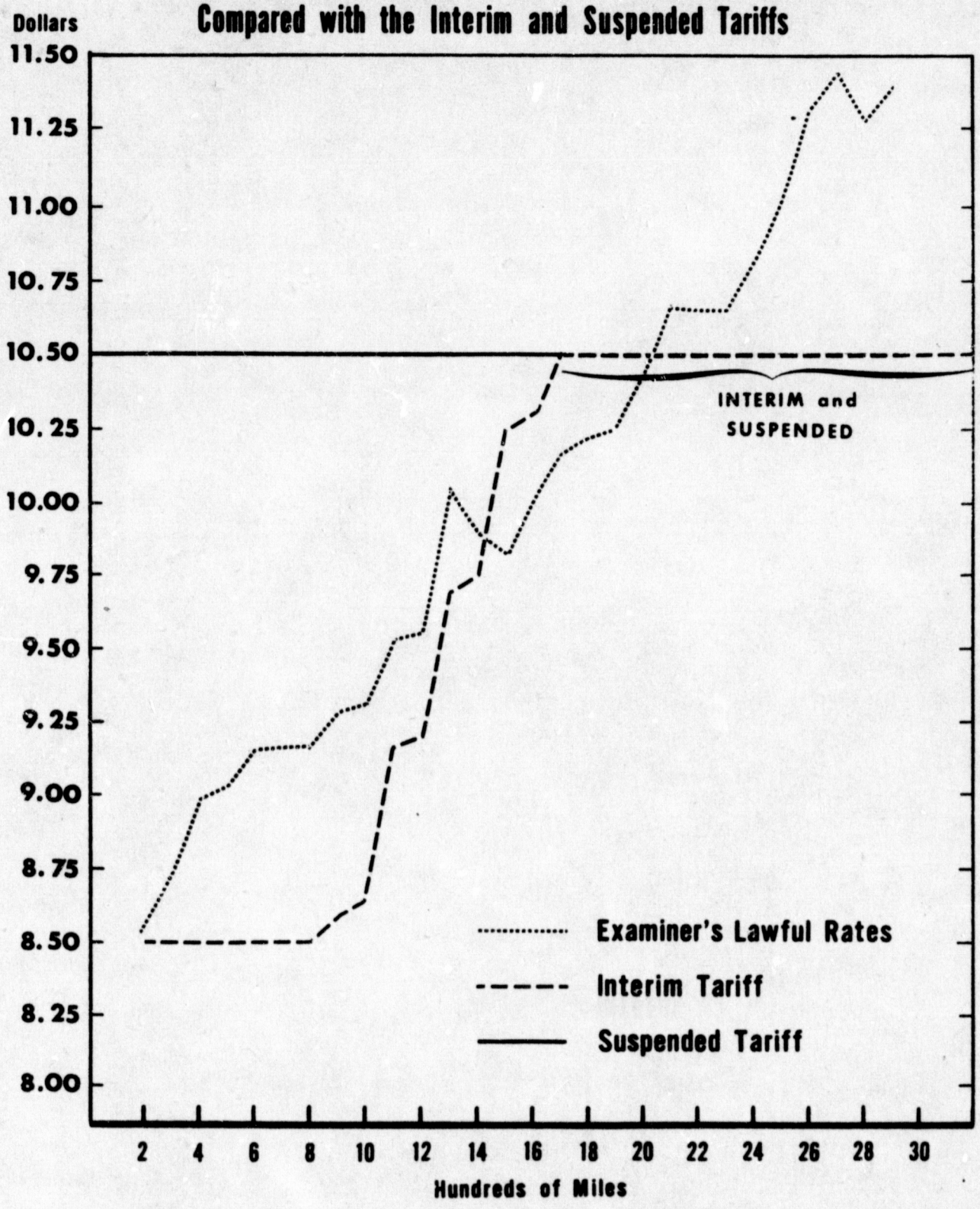
INVESTIGATION OF AIR EXPRESS RATES

Examiner's Lawful Rates for a 5lb. Air Express Shipment Compared with the Interim and Suspended Tariffs



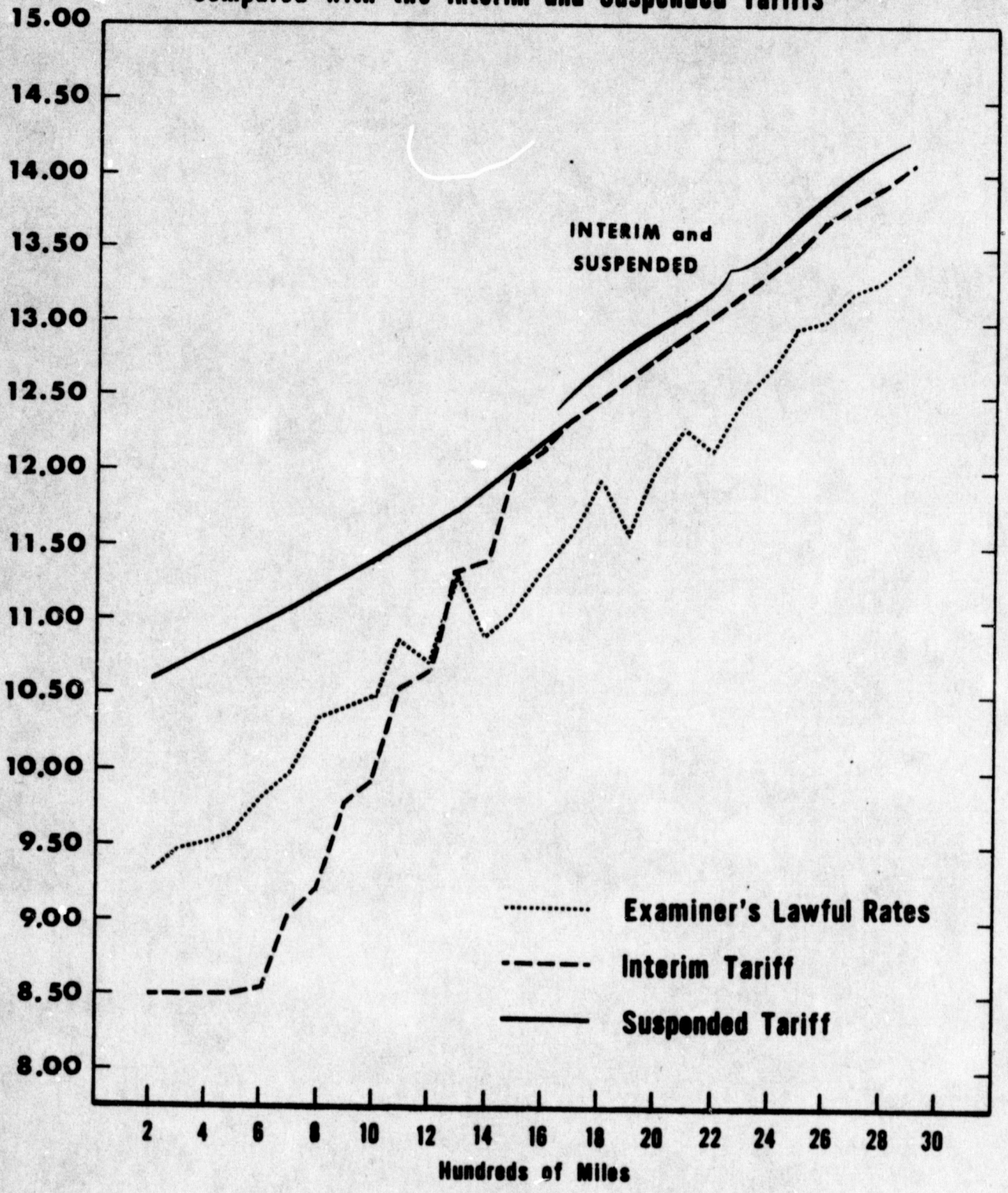
INVESTIGATION OF AIR EXPRESS RATES

Examiner's Lawful Rates for a 10lb. Air Express Shipment Compared with the Interim and Suspended Tariffs



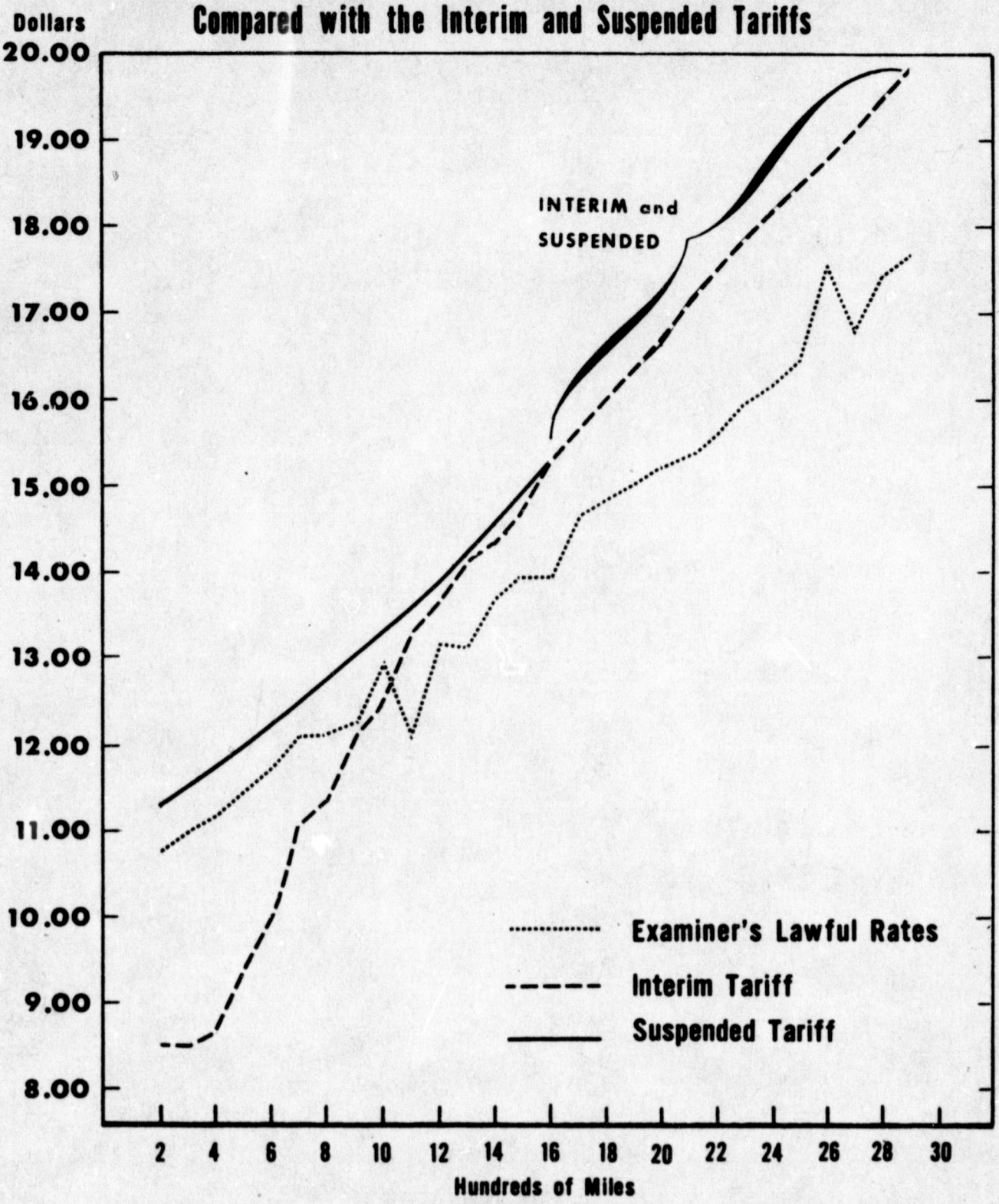
INVESTIGATION OF AIR EXPRESS RATES

Examiner's Lawful Rates for a 15lb. Air Express Shipment Compared with the Interim and Suspended Tariffs



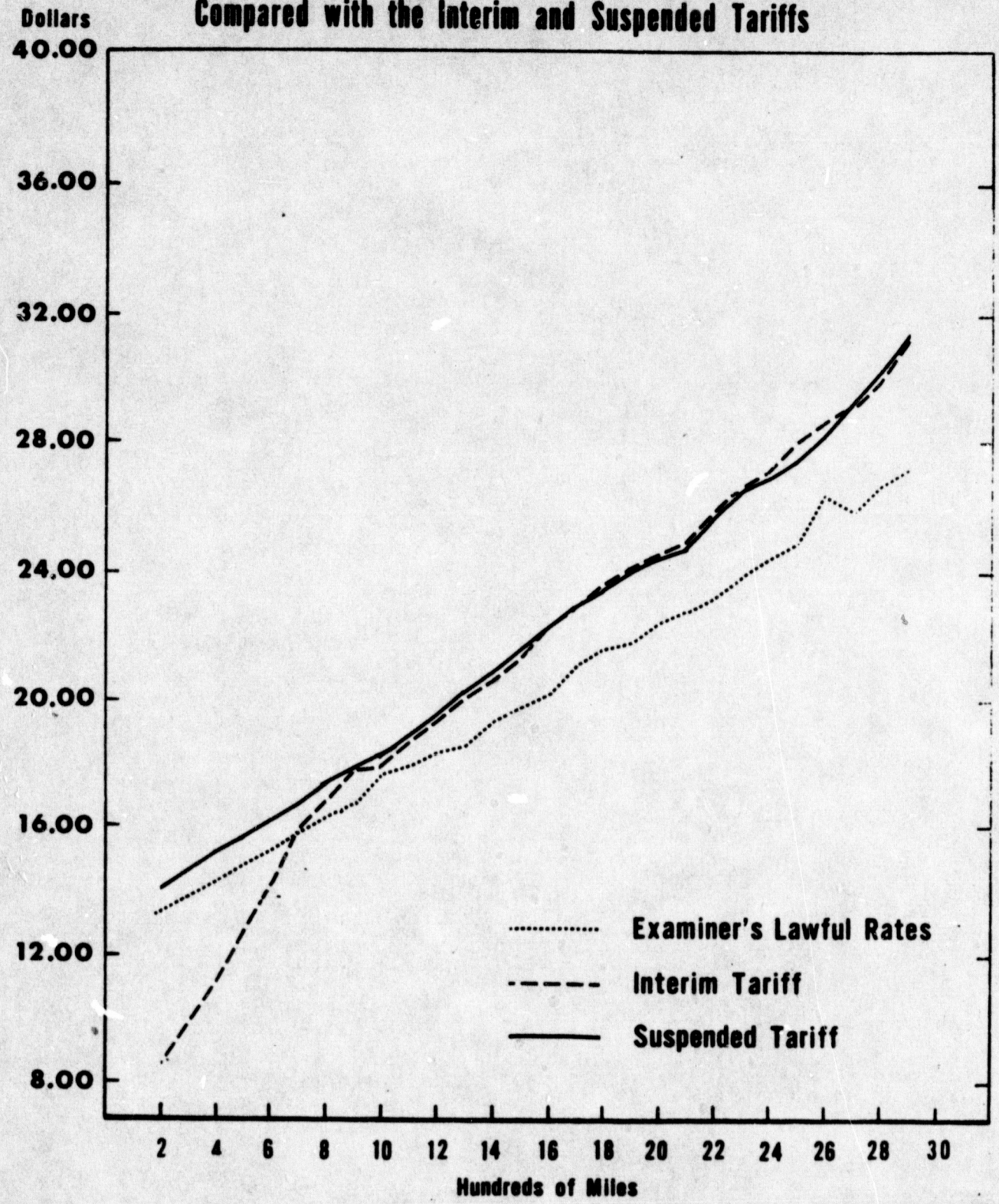
INVESTIGATION OF AIR EXPRESS RATES

Examiner's Lawful Rates for a 25lb. Air Express Shipment Compared with the Interim and Suspended Tariffs



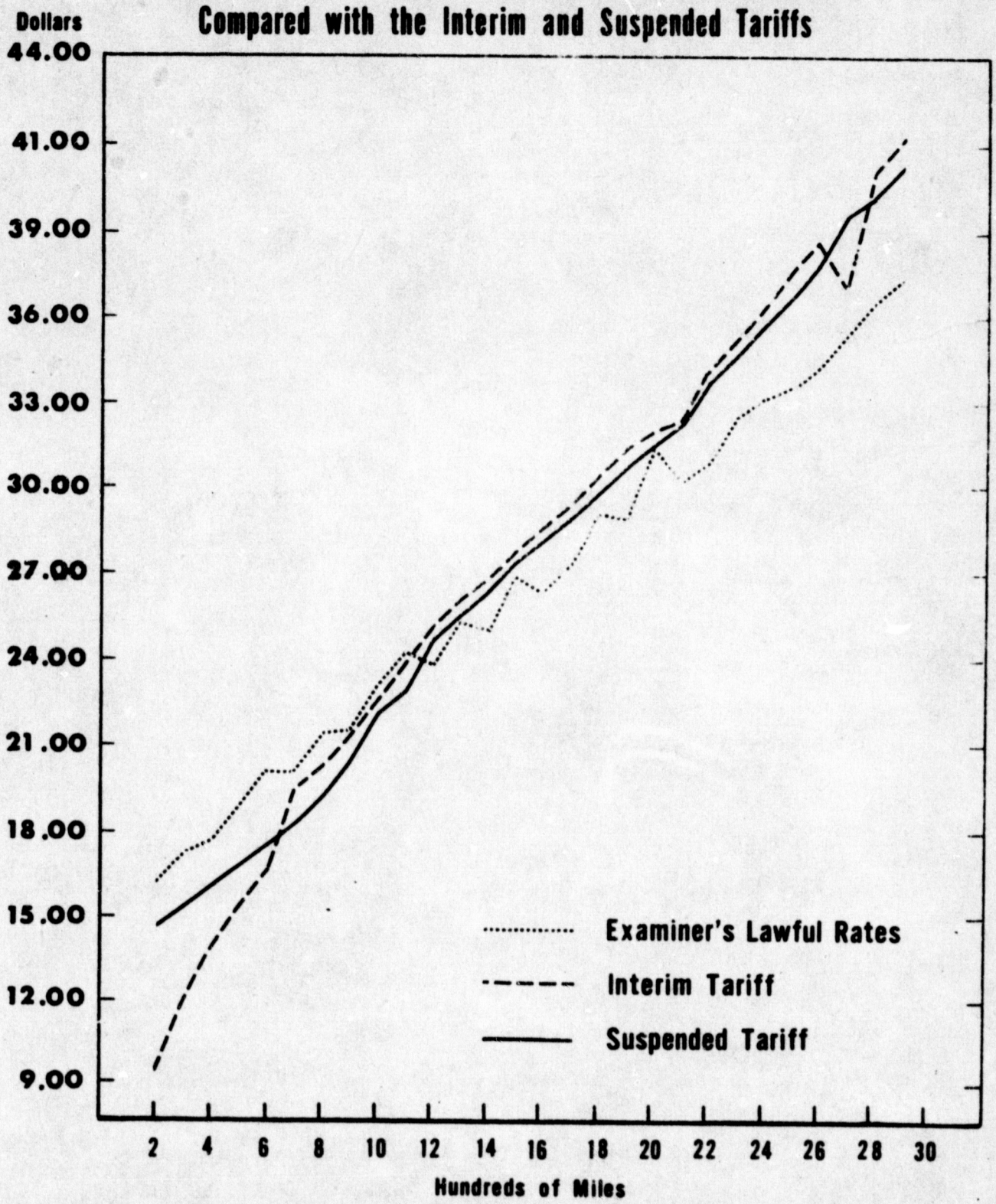
INVESTIGATION OF AIR EXPRESS RATES

Examiner's Lawful Rates for a 50lb. Air Express Shipment Compared with the Interim and Suspended Tariffs



INVESTIGATION OF AIR EXPRESS RATES

Examiner's Lawful Rates for a 75lb. Air Express Shipment Compared with the Interim and Suspended Tariffs



Docket 22387
Appendix [illegible]
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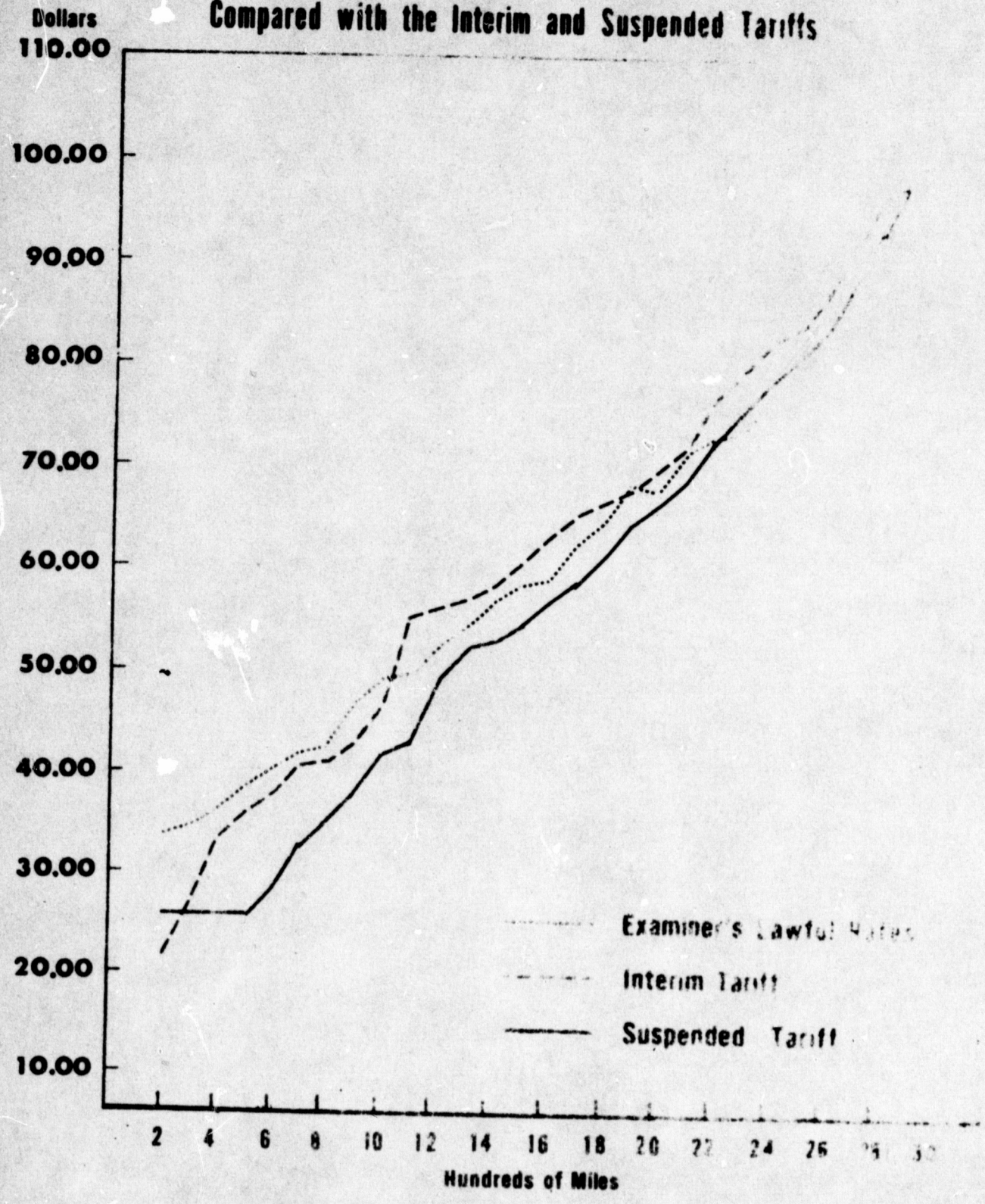
INVESTIGATION OF AIR EXPRESS RATES

Examiner's Lawful Rates for a 200lb. Air Express Shipment Compared with the Interim and Suspended Tariffs



Investigation Of Air Express Rates - Docket 22387

Divisions under Interim and Suspended Tariff Rates
Compared with Air Line and REA Costs
Including Tax and Return
1969 and 1970

Pounds/Scale	Air Line Division of Air Express Rates		Examiner's Air Line Costs		REA Division of Air Express Rates		Examiner's REA Costs	
	Interim	Suspended	1969	1970	Interim	Suspended	1969	1970
5 Pounds								
1&2	$2.40	$2.50	$1.88	$1.88	$6.10	$6.00	$5.82	$6.34
3	2.40	2.50	1.98	1.98	6.10	6.00	5.82	6.34
5	2.40	2.50	2.08	2.08	6.10	6.00	5.82	6.34
10	2.40	2.50	2.31	2.30	6.10	6.00	5.82	6.34
14	2.40	2.50	2.53	2.52	6.10	6.00	5.82	6.34
20	2.40	2.50	2.83	2.81	6.10	6.00	5.82	6.34
24	2.40	2.50	3.08	3.07				
10 Pounds								
1&2	2.40	2.50	2.34	2.21	6.10	8.00	5.84	6.36
3	2.40	2.50	2.39	2.38	6.10	8.00	5.84	6.36
5	2.40	2.50	2.67	2.66	6.10	8.00	5.84	6.36
10	2.40	2.50	3.07	2.96	6.25	8.00	5.84	6.36
14	2.40	2.50	3.67	3.53	7.35	8.00	5.84	6.36
20	3.10	3.30	4.20	4.08	7.40	7.20	5.84	6.36
24	3.60	3.84	4.58	4.45	6.90	6.66	5.84	6.36
25 Pounds								
1&2	2.40	2.50	4.11	4.10	6.10	8.78	6.11	6.66
3	2.40	2.50	4.35	4.33	6.10	9.02	6.11	6.66
5	2.40	2.50	4.87	4.84	7.05	9.50	6.11	6.66
10	4.25	4.50	6.33	6.28	8.20	8.78	6.11	6.66
14	5.78	6.13	7.09	7.03	8.52	8.42	6.11	6.66
20	7.75	8.25	8.66	8.58	8.98	8.48	6.11	6.66
24	9.00	9.60	9.61	9.52	9.18	8.58	6.11	6.66

APPENDIX H
Page 2 of 3

Investigation Of Air Express Rates - Docket 22387

Divisions under Interim and Suspended Tariff Rates
Compared with Air Line and REA Costs
Including Tax and Return
1969 and 1970

Pounds/Scale	Air Line Division of Air Express Rates		Examiner's Air Line Costs		REA Division of Air Express Rates		Examiner's REA Costs	
	Interim	Suspended	1969	1970	Interim	Suspended	1969	1970
50 Pounds								
1&2	$ 2.40	$ 2.50	$ 6.05	$ 6.00	$ 6.10	$11.67	$6.66	$7.29
3	2.80	2.93	6.55	6.49	7.00	11.73	6.66	7.29
5	4.50	4.75	7.60	7.53	8.40	10.90	6.66	7.29
10	8.50	9.00	10.38	10.27	9.38	9.25	6.66	7.29
14	11.55	12.25	12.18	12.05	8.98	8.60	6.66	7.29
20	14.30	15.10	15.33	15.15	10.30	9.34	6.66	7.29
24	15.78	16.74	17.33	17.12	11.32	10.21	6.66	7.29
75 Pounds								
1&2	2.78	2.93	8.89	8.16	6.72	11.63	7.29	8.00
3	4.20	4.39	10.01	9.28	7.60	10.92	7.29	8.00
5	6.75	7.13	11.57	10.82	9.55	9.07	7.29	8.00
10	12.60	13.20	14.99	14.19	10.09	8.95	7.29	8.00
14	16.12	16.91	18.01	17.16	10.65	9.52	7.29	8.00
20	19.65	20.63	24.34	23.44	12.35	10.85	7.29	8.00
24	22.14	23.49	26.14	25.19	13.91	12.37	7.29	8.00
100 Pounds								
1&2	3.70	3.90	10.83	10.71	7.05	11.10	7.89	8.68
3	5.60	5.85	12.21	12.09	8.15	10.65	7.89	8.68
5	9.00	9.50	14.29	14.15	10.00	9.50	7.89	8.68
10	17.00	16.45	19.04	18.82	12.00	10.05	7.89	8.68
14	22.05	21.21	23.10	22.83	13.3	10.79	7.89	8.68
20	25.70	26.00	31.00	30.65	14.85	12.40	7.89	8.68
24	28.80	31.20	33.85	33.44	17.40	12.80	7.89	8.68

Investigation Of Air Express Rates - Docket 22387

Divisions under Interim and Suspended Tariff Rates
Compared with Air Line and REA Costs
Including Tax and Return
1969 and 1970

Pounds/Scale	Air Line Division of Air Express Rates		Examiner's Air Line Costs		REA Division of Air Express Rates		Examiner's REA Costs	
	Interim	Suspended	1969	1970	Interim	Suspended	1969	1970
200 Pounds								
1&2	$ 7.40	$ 6.94	$21.84	$21.62	$14.10	$18.70	$10.21	$11.31
3	11.10	9.24	23.74	23.49	16.40	16.40	10.21	11.31
5	18.00	13.11	27.28	26.98	17.70	12.53	10.21	11.31
10	27.30	25.60	38.13	37.69	19.20	15.58	10.21	11.31
14	36.26	34.31	45.58	45.03	21.84	17.67	10.21	11.31
20	48.00	46.28	57.32	56.58	21.60	19.06	10.21	11.31
24	57.60	55.54	66.50	65.67	24.70	22.37	10.21	11.31
300 Pounds								
1&2	11.10	11.62	30.61	30.26	21.15	26.97	12.40	13.80
3	16.65	17.43	40.00	39.67	24.60	21.16	12.40	13.80
5	27.00	21.23	41.48	41.02	25.50	17.36	12.40	13.80
10	38.25	37.44	56.40	55.73	27.00	21.42	12.40	13.80
14	50.40	48.77	66.59	65.76	26.25	20.66	12.40	13.80
20	72.00	72.28	88.45	87.36	21.60	16.97	12.40	13.80
24	86.40	86.74	98.18	97.93	24.15	19.35	12.40	13.80

Sources: Columns 1, 2, 3, 6 & 7: REA-REB-2402, Revised; and Exhibits PC-R-875, 876.
Column 5: Appendix E-1.
Column 9: Appendix C-3, page 1; and Appendix E-1.

Investigation Of Air Express Rates - Docket 22387

Summary of Total Air Express Traffic and Revenue
1969, 1970 and Fiscal Year Ended September 26, 1971

	Calendar Year 1969 1/	Calendar Year 1970 2/	Fiscal Year Ended September 26, 1971 3/
Shipments	9,866,300	8,835,000	6,643,800
Pounds (	267,425,360	243,864,306	181,396,200
Average O&D Distance 4/ (miles)	774.5	774.5	774.5
Ton-Miles (000)	103,560	94,436	70,246
Circuity 5/	107.9	107.9	107.9
Ton-Miles (000)	111,741	101,896	75,795
Pieces	14,176,800	12,722,400	9,562,600
Air Express Revenue ($ 000)	$96,471	$98,812	$79,591
Average per shipment:			
Pounds	27.11	27.60	27.30
Pieces	1.44	1.44	1.44
Revenue	$9.78	$11.18	$11.98

1/ REA-IR-1, 3; and PC Direct Brief, Appendix A, page 5 of 6.
2/ REA-IR-16; and PC Direct Brief, Appendix A, page 5 of 6.
3/ REA-IR-23 through 30.
4/ PC-459, page 2 of 3.
5/ PC-458, page 1 of 2.

Investigation Of Air Express Rates - Docket 22387

Characteristics of Air Express Traffic

	Calendar 1969	October, 1970	November, 1970	December, 1970	January, 1971	February, 1971	March, 1971	April, 1971	May, 1971	June, 1971	July, 1971	August, 1971	September, 1971
General commodity-rated shipments													
Ratio to total domestic shipments	96.08%	94.19%	94.21	94.11%	95.10%	94.18%	94.87%	94.74%	93.62%	94.95%	94.99%	94.54%	94.05%
Weight per shipment	26.18	25.71	26.15	26.09	26.55	26.09	25.67	28.73	27.15	28.38	27.43	27.00	28.85
Pieces per shipment	1.38	1.39	1.40	1.40	1.39	1.37	1.37	1.44	1.93	1.42	1.39	1.41	1.40
Revenue per shipment (excl. value charges)	$9.53	$11.63	$11.86	$11.77	$12.04	$11.92	$11.81	$12.39	$12.11	$12.18	$12.04	$12.00	$12.17
Percent handled at minimum charge	51.94%	53.23%	51.03%	51.18%	52.00%	51.68%	51.66%	52.15%	50.37%	51.94%	52.56%	51.07%	50.16%
Distribution of shipments													
1-1000 pounds													
Scale 1-9	61.36%	60.55%	59.18%	60.27%	59.41%	58.49%	59.69%	59.25%	59.62%	60.39%	60.22%	60.18%	60.04%
Over Scale 9	34.62	35.47	36.75	36.04	36.41	37.74	36.74	36.01	36.51	35.22	34.87	35.07	35.14
101-300 pounds													
Scale 1-9	2.73	2.56	2.71	2.36	2.47	2.46	2.42	2.65	2.41	2.51	3.16	3.02	3.33
Over Scale 9	.74	.90	.93	.78	1.05	.82	.59	1.22	.83	1.05	1.05	1.22	.88
Over 300 pounds													
Scale 1-9	.45	.41	.32	.44	.52	.32	.39	.76	.50	.63	.56	.33	.48
Over Scale 9	.10	.11	.11	.11	.14	.17	.17	.11	.13	.20	.15	.18	.13
Specific commodity-rated shipments													
Ratio to total domestic shipments	3.92%	5.81%	5.79%	5.89%	4.90	5.82%	5.13%	5.26%	6.38%	5.05%	5.01%	5.46%	5.95%
Weight per shipment	49.48	34.97	39.23	34.08	35.68	36.72	30.33	28.53	26.71	38.07	33.59	35.68	34.81
Pieces per shipment	2.71	2.12	2.05	2.05	2.04	2.11	2.41	1.82	1.91	2.37	2.17	2.47	2.10
Revenue per Shipment (excl. value charges)	$12.53	$11.07	$11.20	$11.33	$11.91	$10.97	$10.99	$10.68	$10.69	$13.10	$11.51	$13.04	$12.52

Source: REA-1R-23 through 30.

505(a)

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

EXPRESS SERVICE INVESTIGATION

DOCKET 22388

INITIAL DECISION OF EXAMINER JAMES S. KEITH
Served: May 25, 1972

Upon:

Craig Mathews, 815 Connecticut Avenue, N.W., Washington, D.C. 20006 for PEA Express, Inc.

Russell S. Bernhard, 1625 K Street, N.W., Washington, D.C. 20006 for the Participating Airlines.

Robert N. Meiser, 1730 Rhode Island Avenue, N.W., Washington, D.C. 20036 for Air Freight Forwarders Association & Participating Forwarders.

William R. Kraham, Watergate Six Hundred, Washington, D.C. 20037 for Aero Special Air Freight, Inc.

Paul Reiber, 1625 Eye Street, N.W., Washington, D.C. 20006 for BOR-Air Freight Company, Inc.

John L. Richardson, Suite 1100, 1660 L Street, N.W., Washington, D.C. 20036 for C. F. Air Freight, Inc.

Alan F. Wohlstetter, One Farragut Square South, Washington, D.C. 20006 for Domestic Air Express, Inc.

Jerry W. Ryan, 1100 Connecticut Avenue, N.W., Washington, D.C. 20036 for Emery Air Freight Corporation.

Henry Jerum, 151 Oliver Street, Newark, New Jersey 07105 for Imperial Air Freight Service, Inc.

This initial decision is rendered pursuant to the authority delegated to Examiners under Rule 27 of the Rules of Practice in Economic Proceedings. It becomes effective as the final order of the Board 30 days after service thereof unless a petition for discretionary review is filed within 21 days after service thereof in accordance with Rule 28 or the Board issues an order within said 30-day period to review upon its own initiative. If a petition for discretionary review is timely filed or action to review is taken by the Board upon its own initiative, the effectiveness of this initial decision is stayed until further order of the Board.

Arthur D. Bernstein, 1054 - 31st Street, N.W., Washington, D.C. 20007 for J. E. Bernard & Co., Inc.

Gary L. Zimmerman, Suite 201, 9100 Wilshire Boulevard, Beverly Hills, California 90212 for Jet Air Freight.

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UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

EXPRESS SERVICE INVESTIGATION

DOCKET 22388

The existing concept of air express, as represented by the collective participation of the airlines in a partnership arrangement with a single ground agency, is in the public interest and should be maintained.

The issuance of licenses for air express service to one or more indirect air carriers independently of a joint agreement with the airlines is not in the public interest.

REA is the only qualified ground agency willing and able to enter into agreement with the airlines to provide air express service.

So long as REA is an indirect air carrier engaged in air express service pursuant to agreement with the airlines, it would be contrary to the public interest to issue to REA or REAF air freight forwarder authority under Part 296 of the Economic Regulations.

Termination of approval of CAB Agreement 12866 would be contrary to the public interest.

APPEARANCES:

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Russell S. Bernhard and William C. Burt, for the Participating Airlines.

Robert N. Meiser and Louis F. Haffer, for the Air Freight Forwarders Association.

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Paul Reiber and Herbert A. Rosenthal, for BOR-Air Freight Co., Inc.

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Frederic L. Wood, for the National Industrial Traffic League.

William Q. Keenan and Timothy C. Quinn, Jr., for the National Small Shipments Traffic Conference, Drug and Toilet Preparations Traffic Conference, Eastern Industrial Traffic League, and Allied American Bird Company.

Marshall Meyers, for Wits Air Cargo, The American Quality Guild, Robinson-Bishop, Inc.

John Wilson, for Allied American Bird Company.

Richard A. Peterson, for the Department of Defense.

Jerome B. Blum and Andrew F. Giffin, for the Bureau of Operating Rights.

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EXPRESS SERVICE INVESTIGATION

DOCKET 22388

INITIAL DECISION OF EXAMINER JAMES S. KEITH

PRELIMINARY STATEMENT

For more than 40 years the domestic air carriers (Airlines) and REA Express, Inc. (REA) or its predecessors, Railway Express Agency Inc., have been providing so-called air express service under a contractual relationship which involves agreements usually renewable every five years. The last of these agreements to receive Board approval was entered into in 1964 and expired on June 30, 1969 (C.A.B. Agreement 17935).

For reasons subsequently explained, negotiations on a new agreement have failed to produce a contract mutually satisfactory to either REA or the Airlines, and at the moment air express service is being conducted under an extension of the 1964 Agreement, as revised or amended on several occasions in 1970.

Although the amendments were filed pursuant to the requirements of Section 412 of the Act, the Board deferred action on them pending the outcome of the instant investigation which was instituted "for the purpose of

exploring the future role of express or priority cargo service in air transportation, and what action should be taken with regard thereto," including "whether the existing concept of an air express agreement between the direct air carriers and an express company should be maintained" and "whether licenses for such express service should be issued to one or more indirect air carriers (such as REA or air freight forwarders) to conduct such service independently of any joint agreement with the Airlines."[1/]

The order of investigation directed that such underlying questions, inter alia, as the following be explored: (A). whether the service currently being provided by REA is actually an express or priority service differentiated from other airfreight services; (B). whether such a priority service is susceptible of actually being provided--by REA or by anybody else; (C). whether there is a need for separate express service; who, if anybody, should provide such service; (D). whether the direct air carriers should establish a special tariff (and corresponding special service) for express traffic; (E). whether such a tariff should be available to any shipper, or just to the authorized express company; and (F). depending on how such issues are resolved, (1). whether REA should be granted authorization under Part 296 of our Economic Regulations (14 CFR 296) to be a domestic airfreight forwarder, and (2). whether the Board should terminate its approval of C.A.B. Agreement 12866.

1/ Order 70-7-110, dated July 23, 1970.

The order also made all signatories to the 1964 Agreement, as amended, and the Air Freight Forwarders Association (AFFA) parties to the proceeding, and by subsequent order Allied American Bird Company, et al. (Allied) was permitted to intervene and the applications of REA Express, Inc., Docket 22797; Greyhound Van Lines, Inc., Docket 22893, and the following air freight forwarders were consolidated for hearing and decision: Aero Special Air Freight Inc., Docket 22802; Airborne Freight Corporation, Docket 22789; Air-Land Freight Consolidators, Inc., Docket 22782; J. E. Bernard & Company, Inc., (Bernard) Docket 23009; BOR-Air Freight Company, Inc., Docket 22875; Circle Airfreight Corporation, Docket 22825; Domestic Air Express, Inc., Docket 22804; Emery Air Freight Corporation (Emery), Docket 22785; Santa Fe Air Freight, Co., Docket 22783; Imperial Air Freight Service, Inc., Docket 22993; Jet Air Freight, Docket 22033; Novo Airfreight Corporation, Docket 22786; Profit By Air, Inc., Docket 22796; Republic Airmodal Inc., Docket 22843; Shulman Air Freight, Inc., Docket 22790; Southern Pacific Air Freight, Inc. (SPAF), Docket 22803; Surf-Air, Inc., Docket 22811; Trans-Air Freight System Inc., Docket 23031; United Parcel Service Company, Docket 22949; Wells Fargo Air Express, Inc. (WFAX), Docket 22801; Wings and Wheels, Inc., Docket 23011; WTC Air Freight, Docket 22778; and C. F. Air Freight, Inc., Docket 22506.[2/]

2/ The applications of Interjet Cargo System, Inc. and the Puerto Rican Forwarding Co., Inc. d/b/a Active Air Freight were also consolidated, but at the request of the applicants their applications were dismissed. Orders 71-2-30, dated February 5, 1971 and 71-6-29, dated June 4, 1971. Circle Airfreight Corporation, Republic Airmodal Inc., and Surf-Air, Inc., filed no exhibits; nor did they appear and participate at the hearing. C.F. Air Freight, Inc., while filing information responses, did not appear at the hearing. On objection of REA its exhibits were not received in evidence.

Thereafter, leave to intervene was granted the Department of Defense, National Industrial Traffic League (NITL), the National Small Shipments Conference and the Drug and Toilet Preparation Traffic Conference (NSSTC&DTC) and the Eastern Industrial Traffic League (EITL); and following a prehearing conference a public hearing was held and briefs were filed by Allied, Bureau of Operating Rights, Airlines, REA, WFAX, Emery, AFFA, SPAF, NITL, Bernard and NSSTC/DTC/EITL.[3/]

THE PARTIES AND THEIR POSITION

Bureau of Operating Rights. The Bureau's analysis of the record leads it to conclude that there is no material distinction between the air express service offered by REA and the airlines and air freight service provided by the airlines directly or by the air freight forwarders indirectly. Both the airlines and the air freight forwarders, the Bureau asserts, rendered special expedited services, often faster than air express, and in the Bureau's judgement the record does not establish that air express service is generally faster than the air freight services of the air carriers and the air freight forwarders. Moreover, since REA is in the process of closing some of its offices and consolidating its operations to reduce costs, the Bureau states that it "can no longer conclude that REA is distinguished by a vast national service network, in comparison with the entire air freight forwarder industry." Accordingly, the Bureau sees no basis for affording REA different regulatory treatment from the air freight forwarders.

3/ Letters in lieu of briefs were submitted by BOR-Air Freight, United Parcel Service Company and Wings & Wheels.

The Bureau further concludes that the REA/Airline agreement does not permit REA and the freight forwarders to provide the best possible service to the shipping public. Three basic arguments underly this conclusion: (1) shippers or consignees are sometimes forced to pay for unneeded services;[4/] (2) the requirement that each shipment must move by air between points where air service is provided may not result in the most expeditious service;[5/] and (3) the air freight forwarders are restrained in their participation in the small package field and in short haul markets with reference to certain commodity classes because they must pay the direct air carriers airport-to-airport rates higher than door-to-door air express rates on low-weighted shipments.

Finally, because REA and the airlines are in substantial disagreement as to the basic terms of the agreement and cannot get together on the concept of air express for the future, the Bureau believes that continuation of air express as it is known today will involve the Board in a continuing series of crises and thus impose a substantial burden on the Board and its staff.

Accordingly, the Bureau would cancel Agreements 12866 and 17935 and terminate REA's exemption.[6/] However, the Bureau believes there is a need for air freight services of a highly expedited character to handle freight

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4/ Air express involve door-to-door rates. Thus, shippers or consignees who deliver to or pick-up shipments at an airport are, according to the Bureau, penalized by having to pay for services not needed.

5/ In areas where limited schedules are offered by local service carriers surface transportation may provide fastest mode of carriage.

6/ In taking this action the Bureau believes that REA should have a six month transitional period (1) to carry out necessary modification to its facilities to handle consolidated freight, and (2) to develop air freight under its new procedures.

involving so-called "life or death" commodities, highly perishable products or articles that must reach consignees rapidly for various reasons. To accommodate this type of traffic the Bureau would have the direct air carriers file tariff rates and rules providing for whatever special handling may be required, and such tariffs would be available not only to the air freight forwarders and the general public, but also REA which would be given air freight forwarder authority under Part 296 of the Economic Regulations.

The Bureau believes that its proposal will result in a better service for the shipping public by affording shippers (1) a choice as to door-to-door or airport-to-airport service at compensatory rates; and (2) the widest possible choice of carriers to provide the service. It also asserts that its proposal "would reinstate competition among the airlines for such traffic similar to that evidenced by the baggage package service now offered" and "would also give recognition to the demonstrated fact that there is competition today between REA and the air freight forwarder for expedited air freight, although the present regulatory scheme permits competition under different conditions for the two."

Airlines. There are presently 31 U.S. air carriers (including two helicopter operators and three all-cargo carriers) and two foreign flag carriers (Air Canada and Air France) which, collectively, constitute the air carrier party to the air express agreement with REA. As the agreement so specifies, the U.S. carriers are those carriers which hold certificates to engage in property

transportation between points within the U.S. as well as between the U.S. on the one hand, and Puerto Rico and Canada, on the other hand. The two foreign flag carriers are those which hold permits to carry property between the United States and Canada.

This collective arrangement was made possible by an earlier intercarrier agreement (C.A.B. Agreement 12866) in which the participating U.S. and foreign carriers agreed, inter alia, to authorize a so-called Air Express Negotiating Committee (comprised of five representatives, one from the helicopter operators, one from the local service carriers and three from the other carriers) to contract with REA or similar companies for administrative and ground services. This agreement also set up a so-called Express Committee (composed of one representative from each of the participating carriers) whose function, among others, is to advise the negotiating committee as to the terms and conditions of the Airlines/REA Agreement.

It is the position of Airlines that air express service has served a useful public purpose responsive to a public need and that, therefore, it should be continued on the same basis as it has been provided in the past. The use made of the service, as demonstrated by historical traffic growth, is, according to Airlines, proof of the fact that it does respond to and fulfill an existing public need.

It is claimed that the present type of inter-airline agreement and the type of agreement between the carriers and REA are essential to the existence

of nationwide, low cost, single carrier, and small shipment service. An inter-carrier agreement, such as C.A.B. Agreement 12866, is necessary, Airlines say, to (1) achieve pooling and distribution of air express revenues (small shipment) on a formula basis in order to reduce accounting costs; (2) establish single origin-to-destination interline rates between all points in the Nation without the necessity of individual negotiations between all the airlines for joint rates and divisions thereof; and (3) to permit shippers to obtain single carrier responsibility between all certificated airline points.

An Airline/REA type of agreement is essential, it is argued, to (1) attain a low cost small shipment service and only a single ground agency handling both ground and administrative service can coordinate the movement of the small shipments on an economic basis so as to permit small shipment service to every certificated airline point regardless of size or volume of traffic; and (2) to effectively achieve the utilization of space priority on aircraft by determining the extent of the priority requirement for specific flights and coordinate the total requirements for such priority services with the airlines.

Contrary to the Bureau's contention that there is no meaningful differential between air express and air freight services, Airlines see a substantial distinction arguing that the difference extends not only to the transportation characteristics of the two types of service, but also to geographical and commodity coverage and cost of service to the public. While Airlines concede

that there is no significant difference in the comparative door-to-door speeds of the two types of service, they attach much more significance to the space priority factor than the Bureau or the freight forwarders, insisting that the priority element is especially critical during holiday periods when passenger and cargo traffic reach their peak or on those occasions when particular flights are heavily patronized.

As to the Bureau's proposal, Airlines object to its adoption, urging that it would inflict a disservice not only upon the shippers of air express but would be harmful to the airlines, REA and air transportation generally. In this respect, it is reasoned that (a) the economies attainable under the present air express system cannot be achieved under the Bureau's proposal and that, therefore, the cost for shipments that would otherwise move in air express would be higher; (b) shippers of small shipments in 200 or more airport cities not now served by air freight forwarders would incur even higher increased costs than those located in the higher volume markets served by the air freight forwarders, and where such shippers now have a choice between air freight and air express they would no longer have such privilege; and (c) as a result of the intermodal activities of the air freight forwarders, small shipment traffic, except for the long haul movements between major airports would be diverted from air to surface transportation, with the result that local service carriers would be totally eliminated from handling small package traffic and the trunklines would lose all of such traffic at their smaller points.

Finally, Airlines oppose air freight forwarder authority for REA, asserting that if the Board grants such authority, Airlines cannot and will not continue the air express agency relationship with REA. In this respect, Airlines see a conflict of interest in REA acting as the exclusive ground agent for Airlines in air express, on the one hand, and as an air freight forwarder shipper, on the other hand.

It is pointed out that REA would be able to divert air express traffic to its freight forwarder service where it is profitable to do so,[7] and that such diversion would result (1) in an increase in unit costs to the airlines for air express service, and (2) a decline in air express revenues. It is further noted that, because REA would be a partner in its air express dealing with Airlines and a shipper in its freight forwarder activity, the cross utilization of facilities for air express and freight forwarding provided will create unending financial disputes between REA and the Airlines as to the proper allocations of expenses between the two operations.

REA. The early history of REA is set forth in prior Board opinions,[8] and it is unnecessary to repeat it here. Suffice it to note that the relationship between REA and the airlines as partners in providing air express services

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7/ According to Airlines, REA would have the profit inducement to divert not only the heavier air express shipments now moving in all air express markets, but also the smaller shipments now moving in the high density air express markets.

8/ Railway Express Agency, grandfather certificate 2 C.A.B. 531, (1941), and Air Freight Forwarder Case 9 C.A.B. 473, (1948).

has existed since 1927, and for most of this time REA was owned by a large number of the Nation's railroads. In 1969, the railroads sold their controlling interest to REA Holding Corporation, a newly organized company owned by management officials and outside investment firms. At the time of the hearing the holding company owned 99.2 percent of REA's stock and the fractional balance was owned by two railroads. The holding company also owned all of the stock in the Express Company, Inc., which is an applicant for international air freight forwarder authority.9/

At the present time REA owns all of the stock in two subsidiaries, REA Express of Virginia, Inc., which conducts REA Express operations within the State of Virginia and REXCO, Inc., a non-operating company, which owns REXCO Supply Corporation, a dealer in automotive and truck parts, and Fast Service Shipping Terminals, Inc., a consolidator of surface freight. REA also owns a 49 percent interest in REA Express, Inc. (Canada) Ltd., a surface and air express company operating in Canada.

In the conduct of its express business REA maintains a broad network of offices and agencies covering approximately 2,800 cities and towns throughout the country. About 20 percent of the cities are served through offices staffed with REA employees, while the balance are served by agents, a large number of whom are local businessmen whose activities for REA are limited to part-time basis.

9/ Docket 23598. An examiner's initial decision has been issued recommending that the application be granted.

So far as airport facilities are concerned, REA maintains 69 airport field offices serving 67 cities. Thirty-seven of these field offices are operated on a full time basis, with 25 staying open 24 hours-a-day seven days-a-week. The remaining 32 airport field offices are operated during a limited part of the day in space rented from the airlines. At the Nation's remaining airports (453) REA has no field offices, and the functions normally performed by REA at such field offices are handled by airline employees.

During the five year-period 1961-1965, REA experienced annual operating profits in each of the years concerned, building its net worth from $2,902,936 in 1961 to $18,865,990 by December 31, 1965. However, beginning in 1966 and for each successive year to date, REA has experienced substantial operating losses, the cumulative effect of which has been to decrease the Company's net worth to a minus $26,000,000 figure. It has survived in recent years by selling off capital assets amounting to $48,000,000, and at the present time its salable assets are virtually exhausted. It is operating on a day-to-day basis by "watching very carefully the cash receipt or deposit cycle, and using the float[10/] in the bank" to meet its current obligations.

For reasons similar to those advanced by Airlines, REA takes the position that air express service should be continued on substantially the same basis that it has been provided in the past, i.e., with the 33 direct air

10/ As explained by REA Comptroller float, as used here, is the time it takes for a check after it has been mailed, to clear the maker's bank.

carriers providing the air transportation and REA the documentation, the ground transportation and various other functions which it performs today. However, contrary to the position of Airlines, REA would make a basic change in the present concept, revise the Airlines/REA agreement in certain respects, and extend air freight forwarder rights to REA.

REA contends that it needs permanent authority as the exclusive indirect carrier of air express in order to free air express service (and REA) from being "hostage to airline demands" and so that air express will not be destroyed by allowing additional competitors to fragment REA's already thin markets. A revision of the Airlines/REA agreement is needed, REA asserts, in order (1) to free REA from the so-called "59-minute rule" which requires REA to divide up shipments equally among all the available carriers; (2) to permit REA pricing freedom so that it can effectively compete in the marketplace with the air carriers and freight forwarders;[11] and (3) to allow REA the privilege to consolidate and containerize air express traffic in instances where there will be no delay in delivery to the consignee.[12]

11/ Under the present Air Express Agreement Airlines may reject any adjustment in tariff rates by REA. According to REA, Airlines adamantly refuses to let REA set its own rates, and as a consequence REA cannot compete on equal terms with air freight forwarders and the Airlines themselves because the rates for heavier and long haul shipments effectively preclude the use of air express.

12/ REA points out that it receives no discount for consolidating or containerizing air express shipments since "the present form of the Air Express Agreement contains divisions of revenue for each shipment weight at each scale of distance." REA concludes that, if it was not for the so-called "59-minute rule" it has sufficient volume of traffic in its major markets to consolidate and containerize without delaying delivery. It feels that the economies and efficiencies of this type of service should be passed on to REA and the shipping public.

REA urges that it needs air freight forwarder authority in order to spread the costs of air express over a greater volume of business than air express is capable of generating. In this connection, it is emphasized that surface express has dropped to approximately one-third of its 1967 level, and that the volume of surface express is no longer sufficient to support air express. Coupling this with increasing competition from the freight forwarders and airlines and an alleged inability to meet such increasing competition under existing authority REA insists that it must have air freight forwarder authority to render REA's total operations economically viable and thus continue air express.

REA opposes the proposal of the Bureau, contending that, if adopted, priority service would not be expanded but would cease. According to REA, the Bureau's proposal overlooks all of the characteristics of a true air express service which only REA can provide and would destroy REA and air express service to the smaller markets across the Nation. For similar reasons REA opposes AFFA's proposal and urges that the freight forwarder applications be denied since the grant of priority rights to more than one carrier would effectively preclude the existence of any priority service.

Air Freight Forwarders. Although evidence was presented in behalf of 19 freight forwarder applicants and Greyhound Van Lines, Inc., a prospective applicant for limited air freight forwarder authority in the Household Goods Air Freight Forwarder Investigation, Docket 20812, as noted earlier, briefs

were submitted by only AFFA (representing seven of the applicants), Emery, Bernard, SPAF, and WFAX.[13/]

Generally, it is the position of the freight forwarders that air express, as it is known today, should be abolished,[14/] and that the air freight field (including priority cargo) should be open to all competitors on an equal basis. Both Emery and AFFA insist that the present Airlines/REA air express monopoly stifles the growth and development of air freight, especially in the Nation's secondary and tertiary air cargo markets, by precluding effective air freight forwarder competition in such markets; and Emery even suggests that the air express monopoly violates the Federal Aviation Act as well as the "policy of the Executive Branch of the Government."

Like the Bureau, Emery feels that there should be available to shippers, viz., REA,[15/] the freight forwarders and the public, an express or "high expedite" freight service. But Emery believes that such service should be restricted to

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13/ Letters in lieu of briefs were filed by BOR-Air Freight Company, Inc., United Parcel Service Company and Wings & Wheels Express, Inc. BOR-Air takes the position that air freight should be accepted from all forwarders and shippers on the same basis, and that no preference should be given REA. It urges disapproval of the Airlines/REA agreement and suggests that priority on items such as serums, blood plasma and other urgent shipments be made available to all shippers. United Parcel states that it does not object to the grant of air freight authority to REA provided United Parcel is given equal opportunity to serve the public as REA. Wings & Wheels takes the position that it should be permitted to engage in air express operations if the field is open to new carriers.

14/ An exception to this is WFAX which states that it takes no position as to whether the air express agreement presently in effect should be approved or disapproved. However, if air express authority is to be awarded new carriers, WFAX contends its application should be approved.

15/ In this connection Emery favors the authorization of REA as a freight forwarder, but only on the condition that REA's exclusive status as an express carrier is terminated.

"humanitarian commodities" such as saving nature (organ transplants, medicines with an extremely short useful life and medical devices such as the pacemaker heart machines) and articles critical to the military establishment. Emery sees no need for the broad commodity coverage contemplated by the Bureau's proposal, suggesting that the more limited the commodity coverage is the easier it is to solve the reservations problem which Airlines say render the Bureau's and AFFA's proposals impractical.

However, regardless of whether an express or "high expedite" service is limited or not, it is Emery's position that such service should be provided on an airport-to-airport tariff so that users may buy only the service they actually require and the direct and indirect air carriers are free to compete in the area of pick-up and delivery services.

AFFA as well as Emery contend that shippers do not need the so-called "air express service" of REA since such service is no different from that now provided by the direct air carriers and the air freight forwarders. As a matter of fact, AFFA claims that the standard of service of the air freight forwarders excels that of REA; and both Emery and AFFA insist that the air freight forwarders can match REA's service in terms of speed, geographic and commodity coverage. AFFA also claims that the air freight forwarders tracing capabilities are better than REA's and both AFFA and Emery minimize the importance of "priority" in REA's service.

While AFFA urges termination of air express as it is provided today, it sees a "tiny fractional balance" of air freight traffic that needs a highly expedited service, and for this traffic AFFA would have the air carriers, either unilaterally or by agreement, establish through rates and single documentation and have the carriers file individual tariffs covering airport-to-airport rates for such service. The tariffs, in AFFA's thinking, would be available to all freight forwarders, REA and other shippers; and to reduce airline costs the tariffs would contain detailed rules (a) "specifying the forms in which and the places where the limited amount of traffic envisioned is to be submitted," (b) "the required documentation," and (c) "any other reasonable matters of the carriers' choosing." Under this proposal AFFA suggests that the freight forwarders would be free to charge whatever rates competition determines, covering, of course, the airline charges and the freight forwarder's own expenses.

AFFA insist that competition is the heart of its proposal and would produce the lowest possible rates and the best possible service. It further claims that the air carriers would benefit because the proposal contemplates fully compensatory rates thereby eliminating the current large air express losses and because, through consolidation and containerization of shipments, costly hand loading and unloading would be obviated, thus cutting airline expenses in half by eliminating virtually all ground costs.

AFFA has no objection to REA becoming a domestic air freight forwarder provided that its present air express authority is terminated and that any

air freight forwarder authorization for REA be limited to an experimental period of five years. It is suggested that during such experimental period the Board could monitor REA's service to make certain that it promotes development of traffic in the secondary markets and does not harm the other freight forwarders.

AFFA objects to air freight forwarder authority for REA if the present concept of air express is maintained.

SPAF's position and arguments are essentially the same as those of the Bureau, Emery and AFFA. It is willing to accept the Bureau's proposal, but, in the event the present concept of air express is maintained, SPAF urges that the limited number of air freight forwarders now offering an express type service also be granted an air express right. SPAF claims it is highly unfair to deny priority privileges to such air freight forwarders since it restricts them from developing air freight at the smaller communities and outlying areas which were the primary basis for their authorizations.

Bernard supports the Bureau's proposal, urging that successful implementation requires the participating air carriers to establish air express tariffs available to all air express customers, including the general public as well as

air freight forwarders,[16] and to also establish at each airport served by them a so-called "air express counter" which would act as a clearinghouse for all air express shipments and which would be manned by airline personnel to receive, route and reroute such shipments to the appropriate schedules.[17]

Traffic Conferences and Leagues. NITL is a voluntary organization of shippers, groups and associations of shippers, boards of trade, chambers of commerce, etc., located throughout the United States, while NSSTC is an incorporated organization composed of 230 companies and 19 industry associations. DTC is an unincorporated association of 900 manufacturers of ethical or proprietary drugs which are represented in DTC's membership either as individual members or through trade associations of which they are members. DTC speaks regarding transportation materials for some 1,000 firms which account for 90 percent of the total sales volumes of medicine and toilet preparations in the United States.

16/ As Bernard visualizes it, the tariff would guarantee that shipments delivered to the "air express counter" one hour before a specific scheduled flight would be accommodated on such flight or rerouted to the next flight if there is no available space. Also, the tariff would provide for a seven percent commission (based on the air express charges) to be paid by air carriers to the forwarders to compensate the forwarders for the proper documentation of the shipments and for the solicitation of air express. Finally, the tariff would provide for consolidation to be performed by air freight forwarders of shipments originating at a single origin airport and destined to a single destination airport, provided that the freight forwarders' representative takes delivery at the destination airport and the break bulk service is performed by the forwarders' representative.

17/ Bernard's theory is that shipments would be handled on a first-come first-serve basis and any "overload shipments" would be rerouted to the next available flight. The destination "air express counter" would inform the shippers' representative of where to pick-up air express shipments, and also would be prepared to provide (on request) delivery for those shippers requiring such delivery service.

EITL is a corporation with 166 members consisting of industrial companies and associations with operations primarily in the eastern part of the United States.

All of these intervenors are users of air transportation including air freight and without exception they support the continuation of air express as it is provided today by REA. Because they feel that REA has demonstrated its capabilities in the past in meeting the needs of the shippers and are pursuaded that there are no air freight forwarders having REA's capacity to combine ground facilities with air transportation, they urge that REA should be retained as the ground agent for the air carriers in providing air express. They fear that, if the forwarders are permitted to enter the air express market, the impact on REA will be so great as to destroy REA and air express service. Some of them believe that the economics of air express dictate a single surface carrier operation in conjunction with the air carriers, and for this reason they oppose the Bureau's proposal.

Several of these intervenors, NSSTC, DTC and EITL recommend some changes in the present concept, feeling that such changes would promote a better air express service and insulate it from possible future interruptions due to the inability of REA and Airlines to agree on the terms of the contract. First, they urge that REA be granted certificate authority so that Airlines would no longer have the motive to terminate the air express agreement; secondly, they would amend or modify the air express agreement so as: (a) to provide for the

selection of a common agent for the publication of an air express tariff; (b) to revise the formula for the division of revenue between REA and air carriers so that the air carriers portion of the revenues would depend on two factors (1) the number of cwt miles or ton miles of airlift service rendered, and (2) the number of cwt lifted on each flight;[18] and (c) to eliminate the "59 minute rule."

These intervenors also support air freight forwarder rights for REA subject to restrictions that would limit such authority to the carriage of shipments weighing a minimum of 100 pounds and consolidation of forwarder traffic only at the metropolitan downtown sorting terminals.

Allied. This intervenor, like the traffic conferences, urges continuation of air express as it is presently provided by REA. Allied points out that it has over 45,000 air express shipments a year, and it is unable to find a transportation service that can equal air express in cost or service. It fears that the grant of air express authority to air freight forwarders will destroy air express, thus, affecting Allied's ability to continue in business and causing hardship on the many bird breeders who depend on Allied for their market. Allied, therefore, opposes the Bureau's proposal.

18/ Such a revision in the formula, it is claimed, would strip the Airlines of their motivation to align the rate structure so it attracts principally short haul, light weight shipments.

HISTORY, NATURE AND GROWTH OF AIR EXPRESS

History. Although in the late 1920's some air carriers were carrying cargo which was designated as air express with door-to-door pick-up and delivery and by 1930 nine air carriers were transporting air express under contractual agreements with Railway Express Agency, Inc., it was not until 1937 that all of the domestic air carriers were carrying air express under uniform agreements with Railway Express Agency, Inc.

Up to this time and for several subsequent years, air express was the exclusive method for transporting property by air, since the air carrier contracts with the Express Agency stipulated that neither the air carrier nor the Express Agency would except property for transportation except from parties to the agreement. The contracts also provide that the Express Agency would be reimbursed, from air express revenues, all of its promotional and operating expenses, and that the balance of the revenue would be distributed 12.5 percent to REA and 87.5 percent to the air carriers. This "cost plus" feature, it appears, was at the insistence of the Express Agency.

After the enactment of the Civil Aeronautics Act of 1938, the Express Agency filed an application for a "grandfather" certificate. However, the application was denied,[19] the Board holding that, although the Express Agency

19/ Railway Express Agency, Grandfather certificate 2 C.A.B. 531 (1941).

was an air carrier, the certificate provisions of the Act did not require nor authorize the issuance of certificates for operations conducted by the Express Agency. The Board, further held that it was empowered to exempt air carriers such as the applicant from provisions of the Act, and it concluded that the public interest compelled that the Express Agency be granted an exemption from the prohibition that air carriers shall not engage in air transportation without a certificate issued by the Board.

In 1943, at the instance of the Board (which advised the parties to the standard air express agreement that the Board would not approve the agreement unless it was modified so as to (a) delete the provision that neither the air carrier nor the Express Agency would accept property for transportation from any party outside of the scheduled air carriers and the Express Agency, and (b) eliminate the requirement that the rates charged for air express be at least twice the prevailing rail rate for comparable service), the air standard express agreement was revised to conform to the Board's requirements. It was also amended by revising the "cost plus" formula so that the Express Agency would receive all expenses of every type attributable from air express service, plus 12.5 percent of the gross revenue remaining after deduction of such expenses.

From 1943 to August 1, 1959, the agreement between the Express Agency and each air carrier remained essentially the same as the 1943 version, except

for further adjustments in the "cost plus" formula.[20] While the Board did, in 1948, direct the air carriers and REA to negotiate, inter alia, a new agreement pursuant to which REA, rather than the air carriers, would set the tariff rates, no agreement was ever reached in this respect.

In early 1959, with the air express contracts due to expire July 31, 1959, the air carriers met to consider their position and reached the conclusion that they no longer wanted a "cost plus" arrangement with the Express Agency because of the latter's inability to control its increasing spiraling costs; that the public should be informed that air express service is a service of the air carriers rather than the Express Agency; and that there must be a new type of tariff in which all of the air carriers can participate.

Accordingly, the air carriers entered into agreement among themselves to deal collectively with the matter of air express and the Express Agency. This Agreement (C.A.B. 12866), as noted earlier, established the Air Express Negotiating and the Air Express Committees whose compositions and functions have been previously described.

20/ The 1951 "cost plus" formula provided that the Express Agency would receive (1) a fixed cost factor for each shipment based on actual 1950 costs plus 10 percent plus annual adjustments; (2) all other direct costs not included in determining the fixed cost factor; (3) overhead equal to 12.5 percent of the cost in (1) and (2); (4) a profit equaled to 10 percent of the costs in (1), (2), and (3); (5) 20 percent of the remaining gross revenue after deduction of the foregoing costs and profit.

This formula was further revised in 1954 so that the Express Agency would receive (1) a fixed cost factor per shipment based on 1953 costs, plus annual increments; (2) all other direct costs not included in determining the fixed cost factor; (3) overhead equaled to 9.5 percent of the costs in (1) and (2); and (4) 3 percent of gross revenue; and (5) 19.31 percent of gross revenue remaining after deduction of the foregoing items.

The negotiations between the Air Express Negotiating Committee and the Express Agency took place in May, June and July of 1959, and the former was adamant on two points: (1) the Airlines/REA arrangement had to be a partnership with a 50-50 split of air express revenue after deduction by the Express Agency of certain agreed expenses; and (2) an agency tariff must be published in which the Airlines were to be participating carriers. The Express Agency ultimately agreed to these demands, and a new agency tariff was published with each of the Airlines and the Express Agency participating as carriers.

The 1959 agreement expired July 31, 1964, and a new five-year agreement was entered into on August 1, 1964. The main difference between these agreements lay in a division of the revenue between the parties, with the air carriers' share of the gross revenues being less (percentage wise) under a new agreement than under the 1959 contract.

The 1964 Agreement (C.A.B. 17935), as noted earlier, expired June 30, 1969, and at the time that negotiations would normally take place REA was being operated by trustees appointed to hold and dispose of the railroad owned stock. Hence, negotiations were delayed until the REA was sold and new management took over in June, 1969, and they requested time to familarize themselves with the company prior to entering into negotiations on the new agreement. The agreement was thus extended to October 31, 1969, but no progress was made in

reaching a new agreement, and the new owners advised the Airline Negotiation Committee that they could not extend the agreement beyond October 31 unless they received financial assistance from the air carriers. The parties readily agreed to an understanding on an extension of an agreement to April 30, 1970, and the negotiating committee agreed to make available $3 million to REA in the form of monthly payments to be taken from the air carriers' share of revenues during the period November, 1969 through April of 1970.

Negotiations were resumed in January, 1970, and in April the agreement was extended to June 30, 1971. On June 24, 1970 the parties agreed to a further extension to July 31, 1970, and at the same time revised the agreement, making it contingent upon the effectiveness of a tariff appended thereto. However, on July 23, 1970, the Board suspended the tariff and instituted an Investigation of Air Express Rates, Docket 22387.[21/] This left the agreement to expire July 31, 1970, and REA refused an offer of the Negotiation Committee to extend the agreement beyond such date.

At this point various shipper groups filed complaints in the U.S. District Court of the District of Columbia seeking to enjoin REA and Airlines from terminating air express service. The Court granted a temporary restraining order, and after a hearing on August 12, 1970, it issued a preliminary injunction requiring the carriers to continue air express operations pending a determination of the suspended tariff in Docket 22387, supra.

21/ Order 70-7-109, dated July 23, 1970.

On August 24, 1970, REA and the Negotiation Committee adopted the same version of the agreement that died with the suspended tariff, and to this new contract they appended an "interim tariff" which modified certain features of the suspended tariff. The Board permitted this "interim tariff" to become effective and this action resulted in the agreement being extended to January 22, 1971. The U.S. District Court's injunction was dissolved, and the parties, after further negotiations extended the expiration date of the agreement to June 30, 1972, or 60 days after date of final orders in the present investigation and in Docket 22387.

Nature. Air express is one of the three types of air freight services available to the shipping public today. At one time it was the sole means of transporting property by air, but in 1944 the air carriers made direct entry into the air cargo field and shortly thereafter the air freight forwarders appeared.

Air express is a joint service of the air carriers and REA, and collectively they constitute the "carrier." It makes no difference over which carrier or carriers an air express shipment moves, single carrier responsibility exists, and only a single uniform air express bill and a single uniform set of conditions of carriage are required. Air express is available between all certificated airline points in the United States

and also between U.S. points and Canada,[22] offering virtually unlimited commodity coverage,[23] and obtaining expedited ground handling and priority of space on aircraft for normal amounts after air mail, passengers and baggage.

Under the Air Express Agreement it is the responsibility of the air carriers to provide the airport-to-airport service for a "normal" amount of air express on a priority basis, and it is REA's obligation to provide the ground and administrative services. However, at the airports where REA has no field offices, the air carriers perform the ground services, i.e., transfers between aircraft, routing of shipments, receiving and delivering over-the-counter shipments, and collecting for cash and C.O.D shipments, including the necessary paper work.[24] It is estimated that 28 percent of all air express shipment handlings occur at these airports and of this total about 21 percent are over-the-counter handlings. As to such over-the-counter shipments, the air carriers perform such services as cutting the air express bills, weighing the shipments, extending and collecting charges on cash shipments and routing the shipments.

22/ The terminal areas for many of the certificated points are extensive and pick-up and delivery service within such areas is included in the air express rate as part of the total service.

23/ The only exceptions are commodities which require special licenses, shipments likely to offend or injure crew or passengers or damage other shipments, and shipments prohibited by law.

24/ REA, however, performs the billing and claims handling and also the paper work for shipments picked up or delivered or received at the in-town terminals. Although REA may have no field offices it usually has an in-town terminal at each of these cities, and pick-up and delivery service as well as a shuttle service between the in-town terminal and the airport.

As noted earlier, REA has 69 airport field offices (37 with air express employees exclusively and 32 with REA's surface and air express employees), and at these offices REA prepares all of the shipping documents, manifesting, routing, and transferring the shipments between the aircraft, handling of claims, billing, and collecting, etc. These offices also deliver and receive shipments to and from the public either over-the-counter or in REA's pick-up and delivery service. They serve as the pick-up and delivery point for the air carriers which use "runners" to move the shipments to and from the aircraft.

Air express is basically a small shipment service, with the average shipment weighing only 27 pounds and moving 554 miles. Nearly 72 percent of the shipments weigh less than 25 pounds and 52 percent of these move under minimum charges. The average shipment consists of 1.44 pieces and has an average density of 7.6 pounds per cubic foot. Approximately 36 percent of the shipments are generated in the top 500 air express markets (18 percent being developed in the top 100 markets), and the balance in smaller markets. Thus, with such a large percentage of the shipments to the smaller cities, it is not surprising that the average air express shipment is loaded aboard aircraft 1.6 times.

The rate structure for air express is constructed on weight and mileage block basis. Thus, the air express charge for a particular shipment is not effected by the size or location of the origin or destination points

or by the nature of commodities shipped (except live animals and birds). The distance function of the tariff is expressed in terms of a rate scale, there being 29 scales, each scale representing an air line haul of 100 miles. The rates include pick-up and delivery, and if a shipment is not within the terminal zone of an airport, a uniform charge of $5.00 is accessed for an off-line move, either origin or destination, regardless of the weight of the shipment or the distance of the surface haul.

Growth. Between 1950 and 1970 the number of air express shipments have increased 109 percent and the tonnage 144 percent. The number of shipments reached a peak in 1969 when they totaled 9,896,000. Air express revenue during the same period increased 331 percent. For the most recent ten year-period, viz., 1961-1970, the growth of air express in these categories is as follows:

Year	Air Express		
	Tons (000)	Shipments	Revenue ($000,000)
1961	73	6,766	$ 50.8
1962	82	7,480	54.1
1963	84	7,675	58.6
1964	96	8,337	67.4
1965	110	9,211	80.0
1966	118	9,516	86.3
1967	121	9,274	87.0
1968	136	9,700	93.6
1969	134	9,896	96.5
1970	122	8,835	98.8

AIR EXPRESS VIS-A-VIS AIR FREIGHT

Transportation Characteristics. Air express, as noted above, is basically a small package service moving under single documentation in relatively short haul and small traffic markets and featuring single carrier responsibility, expedited ground handling and airlift priority and a relatively simple rate structure. Air freight, on the other hand, whether performed by the air carriers directly or through air freight forwarders, is a service that primarily attracts comparatively large size heavy shipments moving longer distances and in much denser traffic markets than air express. The documentation for air freight is generally more complex and single carrier responsibility does not exist to the same geographical extent as in air express. While both the air carriers and the air freight forwarders readily perform pick-up and delivery service--the air carriers through Air Cargo, Inc. (ACI) under contracts through various truckers and the air freight forwarders through their own trucking facilities and/or through their own agreements with truckers--air freight is not accorded space priority, and except for special shipments, expedited ground handling does not obtain; nor is the rate structure on the pick-up and delivery shipments as simplified as that with reference to air express.

The average weight of an air freight shipment as tendered an air freight forwarder is about 80 pounds and as received by the direct air carriers through their ACI contractors approximately 300 pounds. About 72 percent of the total air express shipments fall within the 1-24 pounds weight break and roughly 24 percent in the 25-100 pounds weight break. By comparison of all the shipments tendered to the air freight forwarders nearly 44 percent fall in the 1-24 pound weight break and 34 percent in the 25-100 pound weight break. The average length of haul of an air freight shipment is 1,069 miles.

Except for special shipments air express receives more expeditious ground handling than air freight. Each air express shipment is handled individually and dispatched on the first flight available. At most airports, air express receives a "last-on, first-off" handling by the air carriers in the loading and unloading of aircraft. At most airports the air carriers will accept air express up to 30 minutes before flight time whereas the close-out time for air freight is generally 60 minutes before flight time. Correspondingly, the recovery time for air express is shorter than that for air freight because of the tight delivery requirements that all air carriers must meet in delivering air express to the REA field offices.

Since the load factors of the air carriers have been generally low in recent years, the airlift priority accorded air express has not been its most significant feature. To test the importance of this factor the air carriers

were directed to conduct a survey (for a representative period) of the passenger flights departing without sufficient space capacity to accommodate freight tendered for such flights. Because of time and expense invloved, the survey was limited to seven representative carriers and conducted during the fourth week in March, 1971. It disclosed the following results:

	Total Departures in Survey Week	Number of departures carrying express and leaving cargo behind because of space and/or weight limits
Allegheny	5,365	79
American	7,219	110
Continental	2,915	25
Delta	8,084	236
Frontier	3,394	34
Northeast	1,276	26
United	9,283	140

The period covered by the survey does not represent a peak traffic period when passengers and cargo are heavy and, therefore, the survey does not purport to reflect the significance of the space priority feature during holidays and heavy traffic periods.

So far as single carrier responsibility and single documentation are concerned, generally the air freight forwarders can provide this service only if the shipments are within the pick-up and delivery zones of airports covered by their tariffs. If the shipments move beyond such pick-up and delivery zones most of the forwarders cannot write a through waybill because

they must depend upon third carriers for the beyond movement. Under these conditions, they do not bear single carrier responsibility, although a number of the forwarders testified that they assume responsibility for lost or damaged shipments and subrogate the rights of consignors and consignees to proceed against third carriers if the latter are legally liable. Emery has surface air freight authority from the ICC which permits it to provide pick-up and delivery service at any point in the 50 states, and other freight forwarders have also applied to the ICC for freight forwarding rights. Emery is thus in a position to write through waybills in the same manner as REA and bear single carrier responsibility for an entire journey of a shipment, and other freight forwarders will be in a similar position if ICC surface freight forwarding is granted. At the moment, however, they are unable to match the single carrier[25] and single documentation advantage which air express shippers enjoy.

Most of the forwarders publish point-to-point tariffs predicated on the point-to-point tariffs of the direct air carriers, but some have tariffs covering door-to-door rates. The air express tariff, as described above, is

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25/ To the extent that tracing of lost or delayed shipments is facilitated by a single carrier service, it is not an advantage here since a number of the forwarders, such as Emery, have highly sophisticated computerized facilities and tracing capabilities which permit monitoring a shipment throughout its course and to be promptly advised of any problems arising with reference to such shipment. REA, on the other hand, does not forward shipping information to down-line stations and does not require current handling information and status reports on shipments to be lodged at a central point in its system.

constructed on a weight and mileage basis which involves only 29 rate scales including the pick-up and delivery charge. From the standpoint of the shipper, latter offers for more simplified approach to ascertaining shipping charges than the point-to-point tariffs which may cover many thousands of city pairs each with varying rates.

Geographical Coverage. Because of its precarious financial condition, REA is in the process of reorganizing and consolidating a number of its offices. Hence, the precise number of the cities and communities where it maintains offices and agencies cannot be determined at this point. In its affirmative exhibits filed August 23, 1971, REA listed 650 salaried offices and 2,695 agencies (exclusive, joint merchant, merchant and branch package agencies) doing business for REA throughout the country. However, in the course of the hearings, it was revealed that 510 of the offices had been closed since April 1971, thus, leaving a little over 2,800 office or agency locations performing REA's operations. Just how many cities these offices and agency locations serve is not clear,[26] but it is apparent that they far exceed the number of cities and towns covered by the single carrier door-to-door services of any air freight forwarder.

26/ The fact that an office has been closed does not mean that service to that location has been terminated. For example, in August 1971, REA's office at Merced, Calif., was closed. However, the city continues to be served out of Fresno. In fact, it was pointed out that the driver that previously served the city serves it today out of Fresno. Similarly, the office at Monterey was closed in August 1971, but this city is being served out of Salinas, also by the same driver that previously served the city.

Emery and Airborne, two of the largest air freight forwarders have offices or agency locations at 243 and 198 places, respectively; and including all of the other forwarders participating in this proceeding the number of office and agency locations total only 534. Emery, of course, now has ICC surface forwarder authority covering all points in the 50 states, and potentially it is in a position to match REA's broad network of cities, towns and communities. Other freight forwarders have also applied for similar surface freight forwarder authority, and if their applications are granted they will have the potential to expand their systems like Emery. At the moment, however, they all lack REA's geographical coverage.

Turning to certificated airline cities only, it is noteworthy that air express service is available at every airport city currently served by scheduled air carriers. While REA maintains airport facilities at only 67 of these cities, as noted earlier, it has in-town terminals at most of the remaining airports where it performs some of the services in connection with air express. The tariffs of the freight forwarders, on the other hand, do not cover services (pick-up and delivery) to all airport cities with their own operations. Emery, for example, maintains 66 airport facilities of its own, has agency contracts at another 98, and at an additional 79 it provides service using ACI airline delivery service in the name of Emery.

Generally speaking, the air freight forwarders maintain no facilities at the very small airport cities, and at many of the secondary or tertiary cities which they serve, they have only "destination agencies" which do not originate shipments.

Commodity Coverage. As noted earlier, air express handles most all commodities, the exception being: (1) shipments requiring special licenses, (2) shipments prohibited by law, (3) shipments likely to cause damage to other shipments, equipment, crew or other passengers, (4) shipments requiring special devices for safe handling, (5) shipments consigned to an individual or firm at another point, (6) shipments consigned "To Order Of" or "To Order-Notify"; and (7) such unacceptable commodities as (a) articles liable to damage and shock, and (b) money, jewelry, negotiable paper, liquids, fragile or perishable articles, precious metals and precious stones enclosed in shipments of personal effects.

Among the commodities which air express will carry are live animals and birds, bullion, antiques, money, art works, furs and jewelry, and these generally require special handling and facilities. Live animals entail specially ventilated REA trucks, and they also demand such special handling as feeding and watering. For the valuable articles such as jewelry, antiques, furs, etc., also REA offers a so-called Signature Security Service and Armed Guard Protection Service, and shipments such as currency bullion, firearms and those valued at $150.00 or more per pound are secured, upon arrival at the terminal, in a locked "value room" maintained at each office. All value shipments are presented for carriage by the airlines in sealed containers.

Except for Emery, which does carry live animals destined for scientific or medical purposes, Airborne, Jet Air Freight and Wings & Wheels, the air freight forwarders and the direct air carriers (in their pick-up and delivery service) do not handle live animals. Most of the forwarders and the direct

air carriers will not transport human remains, jewelry and platinum. All of them, including the direct air carriers, will not accept negotiable securities, currency, dore bullion, gold bullion, Dust or Sulfides or any form of uncoined gold and uncoined silver. In addition, the forwarders, without exception, will not carry gems or stones, including industrial diamonds or commercial carbons, and only a few will handle furs. Of 60 unacceptable commodities or restricted shipments applicable to one carrier or another, including REA and the direct air carriers (pick-up and delivery), as of August 1, 1971, only eight applied to air express as compared with 12 for one small forwarder, 25 for Emery, 25 for the direct air carriers, 39 for Domestic Air Express, and an average of 26 for the air freight forwarders and direct air carriers as a group.

Air freight forwarders will handle some of the unique commodities that move in air express, but they are not uniform in this respect, and it is up to the shipper to look for the forwarder that will transport his particular shipment. Airborne will accept a fairly large number of the commodities that move in air express, viz., live animals, medical testing instruments and equipment (such as lung, liver and kidney machines and heart assisting devices), surgical instruments, dental instruments, heart valves and other highly scientif instruments, drugs, pharmaceuticals, growing plants, and nursery stock, photographic equipment and radioactive isotopes; and Emery will carry such unique articles as blood, cancelled checks, news film, medicine, perishables, works of art up to a declared value of $500.00, furs, costume jewelry and radioactive isotopes. Other forwarders also handle some of these commodities.

Relative Speed of Services. For the purpose of determining whether air express provides a more expedited movement for shipments than either of the other modes of air freight services, efforts were made by the Bureau at the prehearing conference and subsequent thereto to obtain a common participation of the parties in a joint survey which would compare the door-to-door speed for comparable shipments under the three different services. However, because of wide differences of opinion among the parties as to how the survey should be conducted and by whom and how the expense should be divided, the Bureau's efforts unfortunately were unproductive: no impartial survey was undertaken. Several of the parties made rather limited surveys of their own, and while these surveys leave much to be desired from the standpoint of decisively settling the speed issue, they do afford a rough comparison of the three modes of service.

REA made two studies, one which involved an analysis of the speed of air express shipments for one day at REA's 35 top cities and a second which tested the speeds of a limited number of shipments for the three services on two different days. The first study revealed that 19 percent of the air express shipments were delivered to destinations within 12 hours of origin, 66 percent within 24 hours and 79 percent within 36 hours. All but four percent of the shipments, or 96 percent, were delivered within 48 hours which is considered "next day delivery" in industry usage.

REA's second survey involved five major shippers, one in Chicago, another in Los Angeles, a third in New York, a fourth in Dallas and the

fifth in Atlanta. These shippers sent identical packages at identical times via the three modes of service to Chevrolet dealers located at varying size cities throughout the country. Thus, on August 9 each shipper sent 64 shipments to 16 consignees by each of the services,[27] and on August 12 this process was repeated providing a total of 640 test shipments. The results, expressed in percentage of total shipments per carrier, are shown in the table below:

Business Days	Air Express	Emery	Airborne	Shulman	Wings & Wheels	Direct Air Carriers
1	45.8%	45.8%	21.1%	16.2%	11.1%	25.0%
2	41.7%	46.5%	63.4%	52.7%	50.0%	51.4%
3	9.0%	4.9%	8.9%	22.2%	16.7%	12.5%

Emery made an "in-house" survey in September, 1970 to measure the transit times of its shipments with four of its competitors between 16 city pairs. In this survey, which, of course predated this proceeding, five carriers including Emery and REA were tendered one shipment each in each of the 16 city pairs for three successive days, thus providing a total of 240 test shipments. The results

27/ In the case of air freight forwarders Emery was used; and, in addition, another forwarder, Airborne, Shulman or Wings and Wheels was selected. Altogether there were 320 shipments involved on August 9: 90 via REA, 90 via the direct air carriers, 90 via Emery and 90 via one or another of the other three air freight forwarders.

show that Emery achieved "next day delivery" on 87.5 percent of its shipments as compared with 68.8 percent for REA and from 64.6 to 79.2 for the other competitors.

Studies were made by six AFFA members viz., Airborne, Air-Land, Novo, Profit-By-Air, Shulman and WTC of their traffic records for February or March, 1971. A ten percent sampling[28] of these records shows the following results:

Forwarders	Total Shipments in Sample	Same Day	Next Day	2ND Day	3RD Day Or More
Airborne		3.0%	53.0%	33.0%	11.0%
Air-Land		0.4%	55.5%	22.6%	21.5%
Novo		5.6%	54.6%	36.2%	3.6%
Profit-By-Air		1.1%	60.8%	25.3%	12.8%
Shulman		1.1%	70.1%	18.3%	9.6%
WTC		---	66.7%	32.3%	1.0%

An elapsed time study of the direct air carriers with reference to air freight shipments handled by ACI contractors in 16 selected markets of varying sizes and distance, disclosed that of 39 shipments in these markets 23 percent were delivered within 24 hours, 85 percent within 48 hours and approximately 95 percent within 55 hours. In other words, 85 percent were within the "next day delivery" test, and 95 percent were almost within the test.

28/ WTC took only a two percent sampling.

USE OF AIR EXPRESS BY SPECIFIC SHIPPERS

Representatives of a number of the larger users of air express and REA's service described in varying detail the extent of this use and the part that they play in the movement of their products. Many of them are engaged in the production of highly specialized items in the size and value ranges of the express shipments described earlier in more general terms. Products of drug and pharmaceutical companies are particularly representative of this specialty, but there were also representatives of much more generalized industries such as Montgomery Ward, Western Electric and Hughes Aircraft Company. Details as to how and why these companies favor air express present a significant picture of the contribution it makes to the air movement of property.

The drug and pharmaceutical companies use air express for emergency shipments and seldom employ other means when urgency is a factor. Some are so motivated by assurance that their shipments will be handled on a particular flight, some are swayed by the wide geographical coverage and single carrier responsibility and some are influenced by the more reasonable rates on small shipments. Chemical companies distributing radioactive compounds depend heavily on air express largely because these compounds deteriorate quickly, and therefore must be handled carefully and delivered expeditiously.

Montgomery Ward frequently uses air express to transport replacement parts and fashion items. Many of the 5,000 factory locations from which it buys and the 2,000 locations to which it delivers are off-line points. As to these, it often finds that air express is the only air service that can be utilized. In running fashion shows from various stores it is often on a very tight schedule and it finds air express the most reliable way to get the fashions to the stores on time. Recently the company decided to ship all watches out of Chicago to its various locations via air express Armed Guard Signature Service. The company also uses the service of the freight forwarders, and the mode of transportation is determined by considerations of cost, speed, and the origin and destination of the shipment.

Honeywell, Inc., (Residential Division) uses air express extensively. In 1970, air express accounted for 34.9 percent of 22,018 air shipments. Company use is dictated by a need for "premium" transportation service, which it conceives as something over and above the service performed by surface carriers, and the mode of "premium" transportation is determined by rates and dependability. These criteria generally compel the use of air express for eight to ten pound shipments. Since Honeywell has customers in many remote places, it uses air express to such points and finds that the single carrier and wide coverage characteristics provides it with a reliable service at reasonable cost.

Hughes Aircraft Company, which has major facilities at points in California and Arizona, does business with more than 6,000 suppliers throughout

the Nation from whom it receives more than 500 shipments per day most of which are via air express. Three-fourths of these are in the five pound range and many of them are items to feed production lines. A large portion of the Company's effort is oriented to the Department of Defense, the National Aeronautics and Space Administration and the Atomic Energy Commission and there are nearly 200 daily interstate shipments associated with this effort. Many of these move by air express including a large number of classified items which are so moved because of the availability of the Signature Security Service.

Emerson Electric and Western Electric are also extensive users of air express. In 1970, the former generated 18,500 such shipments and the latter upwards of 200,000. Emerson's use is dictated in part by the wide geographical coverage which it needs, since it has many subsidiaries in small communities throughout the country. Western Electric states that it has come to depend on air express to supply a consistently expeditious service, and it feels that no other service is capable of furnishing comparable dependability. It prefers air express to the other air freight services because of single line coverage from origin to destination, single reference to airbill numbers, which helps in tracing a shipment, and the wide geographical coverage.

Goldstein Company, Inc., is in the retail and wholesale fur business in Birmingham, Alabama. In 1970 it sent 1,500 shipments of furs via air express from eight originating points to 15 destinations. This company feels that air express is essential to its transportation needs since it has found no other satisfactory service. The Company has used air freight forwarders and characterizes their service as slow and inconsistent, taking five days

between Birmingham and New York. According to the Company, some shipments have been refused by air freight forwarders.

The Gugler Lithographic Company uses air express to meet advertising deadlines and many destinations are off-airport points. In 1970, the Company moved 2,400 air express shipments from Milwaukee to over 300 destinations. Over 200 of the destinations receiving over 1,500 shipments were off-airport, and the Company does not feel that any other carrier can provide this type of service.

Vanderbilt University uses air express to bring in shipments of various commodities, including live animals and perishables, from 50 points throughout the United States. In 1970 it received 2,340 air express shipments. The live animals and perishable materials are essential to Vanderbilt's hospital, medical school and research facilities, and it is essential that they arrive within 24 hours. While it also uses the services of Emery Air Freight it feels that it would suffer from the discontinuance of air express.

The Texas Inbred Mice Company of Houston relies heavily on air express, having generated 5,000 shipments of over 120,000 laboratory animals in 1970 to destinations around the country. It expects to use air express for at least 5,000 to 6,000 shipments in 1972 and asserts that its business demands the expeditious one day service which air express has been providing. The company states that it has found no other service which meets its needs.

The Microbiological Associates Inc., ships from two locations to 50 destinations throughout the United States. In 1970 it dispatched 9,500

shipments of biologicals and laboratory animals. According to the Company, air express is essential to its transportation needs because of the speedy delivery. It has used two freight forwarders in the past and found their services to be slower and less consistent than air express.

The Medical Eye Bank of Maryland asserts that it depends almost entirely on air express for shipments of human eyes for corneal transplant surgery operations. The Eye Bank ships human eyes to destinations all over the country, and it does so on an around-the-clock basis. Consequently, it uses air express most of the time because--

> "They [REA] are open 24 hours a day, we can always call them any time day or night, and we can always go out to the airport any time of the day or night, and the eyes can be picked up around the clock when they arrive at the destination."

The Blood Bank Foundation ships from two locations to 40 destination points throughout the country. In 1970 it generated approximately 700 air express shipments, and it anticipates that the number will run from 750-800 shipments in 1972. Other than for Emery's service between Nashville and Richmond where it provides the best delivery to the VA Hospital in Richmond, the Blood Bank has found no other service outside of air express that meets its needs. Besides Emery, it has used several other air freight forwarders, but finds their service to be too slow and inconsistent.

The Trailane Kennels has been using air express services for 20 years, averaging approximately 900 air express shipments of dogs (5,000 dogs) a year.

It uses this mode of service mainly because of the rates and "forwarding service," and it fears that if air express is discontinued it would have no delivery service available for 75 percent of its customers.

Allied American Bird Company's distribution facilities for live birds are in New York and Los Angeles, and from these points it uses air express to handle all outbound shipments to chain and pet shops throughout the United States. It generates in excess of 45,000 air express shipments annually with New York accounting for 80 percent and Los Angeles 20 percent. To Allied it is of prime importance to have the air transportation geared to door-to-door delivery and its experience compels it to state that air express is the only transportation available to meet its needs. It has explored the possibility of distributing the live birds by air freight forwarders, but after repeated inquiries it found none that would accept its traffic.

Allied's appraisal of the contribution of air express to the continuing success of its business is confirmed and endorsed by representatives of parakeet breeders of northern Oklahoma and southern Texas. These witnesses also emphasized the importance of parakeet raising to many of the low income families in their areas where it is a source for supplementing the livelihood of many old and handicapped people.

CONCLUSIONS

Utility of Air Express. The elapsed time surveys of the parties, because of their limited sampling or coverage, differences in approach, a lack of comparative bases, and the presence of some biases, do not provide a reliable yardstick for measuring the door-to-door speed of air express vis-à-vis the other air freight services. But they are the only evidence on this point, and in a rough sense they reasonably may be read as showing that the bulk of the shipments of all three services are delivered within 48 hours of origination, and, that, with the possible exception of Emery, air express has a higher percentage of shipments delivered within 24 hours.

In addition, Airlines' survey of flights departing without space or weight capacity to accommodate freight, demonstrates, beyond question, the advantage of the priority element of air express. Even in the more recent periods when there have been no general capacity problems, a small percentage of air express shipments has received more expeditious handling. From this, it is clear that during holiday seasons and other peak traffic occasions the advantage of priority could be significant.

In these circumstances, the priority feature is much more than just an advertising attraction for air express, as Emery seems to feel; it is an important feature in distinguishing it from the other air freight services.

As one shipper indicated, the priority factor is "an insurance policy" that a shipment will be loaded on the first available flight.

However, priority and speed[29] are not the only benefits or advantages that differentiate the air express from the services of forwarders and the direct air carriers. As the shipper evidence confirms, there are other aspects that attract and lead shippers to select it over the others. One of these is REA's vast geographical coverage and the ability to provide a simplified service with a single waybill and single carrier responsibility. No single air freight forwarder serves all of the airport cities, and in some of the smaller cities only destination agencies are maintained. Moreover, the systems of the forwarders do not approach the size of REA.

The wide commodity coverage of air express is another item important to the shipper, as are the special facilities and services offered by REA. Examples are those that facilitate the movement of birds and animals and those that protect high value and security shipments. Some air freight

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29/ Some air freight forwarders provide a "high expedite" service for emergency type of shipments. But these services are not characteristic of the main stream of the forwarders business which primarily involves consolidation and break bulk operations. These special services of the forwarders are handled on an individual basis without consolidation, and they move outside the normal service, usually at extra charges. Some of the air carriers provide a special "package service" in which shipments of limited size and weight are expedited as checked baggage on specific flights. This service, however, is normally limited to very special shipments which entail a relatively high charge and no pick-up or delivery service.

forwarders handle many of the unusual commodities acceptable to air express, but they fall considerably short of REA in this respect. Very few of the air freight forwarders will handle shipments of animals, and while the air carriers will provide air transportation for birds and animals, they do not offer a pick-up and delivery service for them. Air express is the only mode of transportation capable of providing nationwide service for small shipments of secret material for Government contractors, and it is the only service authorized by the Department of Defense to handle such material.

Finally, a component of air express particularly vital to many shippers is the reasonable rate structure with respect to small shipments. This ingredient is inherent in the single ground agency concept of the service, since small shipments can be funneled into a single entity for ground handling and administrative service, thus, effecting substantial economies that can be passed on to the shipping public in the form of lower rates. The single documentation procedures facilitated by this concept reduce accounting costs because collections from the shippers can be made by the single ground agency and settlements between the air carriers are centralized and simplified.

Because of these reductions, air express is provided at lower cost to the airlines individually than is the small shipment service of air freight. For example, the airlines' cost for a 20 pound minimum air freight shipment traveling a distance of 600 miles is $11.50 and for an 800 mile trip it is $11.83. By comparison, the fully allocated airlines' cost, including return

and taxes, for a 25 pound air express shipment moving 750 miles is only $6.30.[30/] The ground service costs for air express (including pick-up and delivery) are covered by REA's share of the air express rates and that share is lower than the separately published charges of the airlines for air freight pick-up and delivery service and also below the pick-up and delivery charges of the air freight forwarders.

For these reasons, it is found that air express is clearly distinguishable from the other services and has a special utility that the operations of the air freight forwarders and direct air carriers presently do not supply.

The Future Role of Air Express in Air Transportation. It is evident from the inability of REA and Airlines to reach accord on the terms of their new five year agreement that the existence of air express, at times, can be uncertain. Only the legal action of the shipper groups halted a threatened interruption of service in 1970, and today, nearly three years after the expiration of the 1964 agreement, the parties still have not settled all of their differences concerning their future relationship. This situation, even when resolved, may reoccur, and the shipping public could again face the distressing experience of 1970. Thus, as one of the main objectives of this investigation, it is essential to explore alternatives that might achieve and provide the singular utility of air express.

30/ This estimate was made by Airlines in the Investigation of Air Express Rates, Docket 22387.

The Airlines/REA discord is one of the several factors noted by the Bureau in recommending that air express be abolished. The Bureau and the air freight forwarders are satisfied that the present benefits and advantages of air express can be preserved under their recommendations and proposals. In essence, they envisage REA as an air freight forwarder, air carrier tariffs as establishing through airport-to-airport rates, and single documentation procedures being established for a highly expedited air cargo service covering "humanitarian" or "life or death" commodities, highly perishable products, and other articles requiring rapid delivery.

There is much to commend this idea, since, on its face, a number of the benefits and advantages of air express would appear to be retained, and the uncertainty attending reoccurring negotiations would be eliminated. The forwarders promise to expand their services both geographically and in terms of commodity coverage, and they also pledge to lift restrictions they now impose on certain commodities if air express is abolished. As an air freight forwarder, REA's broad commodity coverage could be carried forward to its freight forwarder activities. Of course, the priority feature of air express would be gone. But in its place would be the "high expedite" service which, except for holidays and peak traffic periods, should offer shippers a fairly reasonable alternative for air express priority. In addition, the proposed airport-to-airport aspect of the "high expedite" tariff would be a boon for those shippers now paying for the pick-up and delivery that they do not use.

The number of shippers in this situation appears significant since approximately 21 percent of air express shipments do not receive pick-up and delivery service.

However, these features lose virtually all of their appeal when balanced against some of the obvious consequences. If air express is abolished, shippers would be faced with substantially higher costs for small shipments, and shippers in the small airport cities would be left only with the air freight service of the direct air carriers. Air freight forwarder service is not endowed with the favorable economics of the single ground agency concept, and consequently it cannot develop a rate structure for small shipments commensurate with air express.

Traffic which now moves in air express would, under the Bureau's and the air freight forwarders proposal, be handled as air freight either by forwarders or by the direct air carriers, and while competition among the forwarders should tend to promote the lowest possible rates, such rates could not approach the reasonableness of air express rates. For example, the 4,267,000 minimum charge air express shipments (constituting 52 percent of the total) which now move at a minimum charge of $9.68 would increase to $16.23 via air freight forwarder service at the present rates. The cost of an average air express shipment, as distinguished from a minimum charge shipment would increase 56 percent.

Air express traffic is generated predominately by the smaller cities which are not generally served by the air freight forwarders. Their activities are usually concentrated between larger and busier metropolitan centers, whereas approximately 64 percent of all air express shipments originate in markets below the top 500 air express markets, many of which account for less than ten shipments

per day. Many of these markets must, of necessity, involve the small airport cities at which REA has no airport personnel. These generate an average of only 23 air express shipments per day requiring pick-up and delivery service.

At approximately 200 small airport cities there is no forwarder representation, and if air express is terminated, shippers of small shipments at these cities would have available only the air freight service of the direct air carriers which is not designed to handle small shipments. These shippers would also face higher rates than would others located in the higher volume markets. It might be thought that REA, as an air freight forwarder, would continue to serve these cities, but one of its vice-presidents testified:

> "If REA loses its air express exclusivity, we would operate entirely differently. It would undoubtedly be necessary for us to abandon many of these smaller communities, and treat them in whatever manner we could to bring the freight into major points of origin and to make our distribution through whatever ingenious devices we could develop."

He added at another point:

> "If we lose our exclusivity, we would probably be forced into going into an operation not too dissimilar to present forwarder operations. But let me distinguish. There are forwarders and there are forwarders. We would not reduce our level of service to the average forwarder service, but one or two of the larger forwarders operate in as many as perhaps 65 cities, or thereabouts. We would probably operate somewhere in that number of cities, but not very much beyond there, except by surface, as the forwarders do today."

Shippers would not be the only segment of the public affected by the adoption of the Bureau's and the air freight forwarders' proposals. Problems

are posed for the airline industry. The forwarders are in the process of obtaining surface freight forwarding rights from the ICC, and this will permit them to render a combination air and surface service between major airline cities and the smaller certificated airline points (and off-airline points) served by the local service carriers. If air express is abolished the local service carriers could hardly hope to attract air freight traffic against the less expensive surface operations of the forwarders. Thus, they would suffer nearly total diversion of the traffic theretofore carried as air express.

The trunkline carriers would also feel the impact, since approximately 81 percent of the air express traffic is carried primarily in daytime service on combination aircraft. The trunks are making strong efforts in the form of discount commodity rates to attract more air freight to "Daytime Service" in order to more efficiently utilize existing available capacity.[31/] The air freight forwarders move only 42 percent of their shipments on the combination flights, and if air express is terminated the problem of unused cargo space will be further aggravated.

For the foregoing reasons, and with consideration of the vital role air express has played in the movement of property for four decades, its growth to a $100 million a year business, and a volume that averages more than 27,000 shipments daily, it is concluded that continuation of air express as a partnership arrangement between the air carriers collectively and a ground agency would

31/ See Order 71-8-119, dated August 31, 1971.

be in the public interest. Since only a single entity can effectively provide an economical air express service it is further concluded, that the present concept as broadly represented in C.A.B. Agreement Nos. 12866 and 17935 should be maintained.

Alternatives to REA as Ground Agency for Air Express. The record clearly establishes that, if air express is to be continued without substantial interruption of service, there are no alternatives beyond the utilization of REA as the ground agency for Airlines. While all of the air freight forwarders are applicants for air express service, their interest is primarily defensive, and none is actually willing to relinquish its authority to enter into an arrangement with Airlines on the same basis as REA.

A possible alternative is ACI, but Airlines readily concedes that ACI does not have the organization and wherewithal to take up REA's duties and functions at this point. The Senior Vice-President of Economic Planning for United Airlines and Chairman of the Air Express Negotiating Committee indicated that Airlines had no definite plans for an alternate to REA, and that if REA stopped doing business next week Airlines would have to "pause and recoup," but in this connection he observed that even if REA went into bankruptcy next week, it would obviously have a receivership and Airlines would continue to do business with a receiver on a cash basis. As to the use of ACI he speculated "we could have something going within six months."

Thus, for the immediate future at least, REA represents the only ground agency option available for continuing air express. Although, on brief, REA contends that air freight forwarder authority is essential to assure the continuation of air express on an economically viable basis, its President, on cross-examination, testified that if required to make a choice between being an air freight forwarder or remaining the exclusive ground agency of Airlines, he would choose the latter provided certain changes were made in the agreement. In this connection, he said:

> "I think that if the air express agreement had the changes in it which we have requested, it would be the very best way to go. It makes a lot of sense; it is viable; we could do the kind of things that I think we both need and the nation needs to provide express service.
>
> "Short of those kinds of changes, then I think we would be better off as an airfreight forwarder."

The changes referred to concern (1) greater security for REA in its status as ground agency for Airlines; (2) pricing freedom for air express (including the elimination of Airlines' veto to any adjustment in tariff rates quoted to the public); (3) elimination of the "59 minute rule"; (4) the right of REA to consolidate and containerize air express shipments; and (5) an appropriate division of revenues between REA and air carriers.[32/]

32/ The matter of appropriate division of revenues between REA and the air carriers is a matter at issue in Investigation of Air Express Rates, Docket 22387, supra. It is no longer in the hands of the parties.

Airlines makes it quite clear that it is most anxious to continue its partnership with REA, and that it is willing to make changes in the areas of the agreement objectionable to REA. On brief it has outlined what it has in mind in this regard, and while this may not be entirely satisfactory to REA, it is not the purpose of this proceeding to settle the differences between the parties as to the terms of their future relationship. The requested changes, except for appropriate division of revenues which has been removed from the parties' hands, do not go to the heart of the concept of air express and, therefore, should be left for negotiations between the parties.

If Airlines and REA are unable to settle their differences, then Airlines will have to look to other alternatives; and while the shipping public would be temporarily inconvenienced, Airlines or the individual carriers could put into effect the Bureau's and the air freight forwarders' proposals which would afford them some measure of relief pending resumption of air express.

However, as noted earlier, the Bureau's and the air freight forwarders' proposals do not have the capacity to produce as reasonable a rate structure for air express, and they would not reach a large part of the small package traffic that is the primary source for air express. Nevertheless, the "high expedite" feature of their plan would fill a void if REA and Airlines are unable to come to terms, and this would be better than having no priority service at all. But as a permanent component of air transportation "high expedite" would not be as effective a force for the forwarders as the airport-to-airport rate structure which Airlines are willing to put into effect as an additional feature of air express.

The forwarders are now unable to take advantage of air express because of the present door-to-door rate structure which is not conducive to consolidation and containerization.[33] With an airport-to-airport rate structure supplementing the present door-to-door rates, the forwarders would be able to use air express service as effectively for some shipments as they do air freight for others. Because of the single ground agency feature they would obtain a lower rate structure and a superior service. This should satisfy their main complaint with air express and one of the Bureau's primary objections to that service. It is recognized that a number of the air express shippers using the door-to-door rates can expect higher charges since they would no longer be geared to total shipments.[34]

REA's Air Freight Forwarder Application. In seeking an air freight forwarder operating authorization under Part 296 of the Economic Regulations, REA proposes to conduct operations through an affiliate, REXAIR Freight, Inc., (REAF) whose stock is wholly owned by REA Holding Corporation, REA's parent company. While REA states that its main purpose is to attract small shipment traffic now moving

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33/ The consolidated shipments of the forwarders are necessarily on an airport-to-airport basis, so that door-to-door rates are uneconomic for their shipments.

34/ Twenty-one of all air express shipments receive no pick-up or delivery service. These shipments would have to be excluded in costing door-to-door service.

via surface transportation, it is apparent its interest is also motivated by its sagging surface operations. As noted earlier, beginning with 1966 and in each succeeding year REA sustained operating losses. During this period the size and weight of acceptable parcel post packages were increased and its surface express business declined from 53 million to 15 million shipments. It also faced an increasing penetration of the market for air express by forwarders and the direct air carriers. With the decline in its surface express business REA's ability to spread fixed costs has decreased.

As an air freight forwarder, REA estimates that it would generate 1.5 million shipments in the first full year of operation, most of which it expects to divert from its surface express and other surface traffic. At the outset it plans to serve 34 cities[35/] where it will employ 50 salesmen who will promote air freight exclusively. At the same time REA's 200 existing salesmen would help promote REAF's service in order to broaden REAF's exposure and give REA's customers a wider choice in transportation services. REAF will have its own fleet of trucks, but where it may be more efficient REAF's traffic would also be handled by REA's surface express trucks which include 555 over-the-road tractors and 3,225 trailers.

REA holds operating rights issued by the ICC to haul general commodities, and it operates over-the-road single truck service between a number of markets 500 miles apart. Thus, it is readily apparent that REA comes within the terms

35/ It plans to expand to the smaller airport cities as rapidly as business at those cities develops.

of the Board's Long Haul Motor Carrier Regulations[36] which are set forth in Subpart I of section 296 of the Economic Regulations. Section 296.86 provides that the Board will approve an application if it appears (a) the applicant is capable of performing the proposed air transportation and of conforming to the provisions of the Act and all rules and requirements thereunder; (b) the applicant will conscientiously promote air cargo and will benefit air transportation; and (c) the applicant's operations, alone or together with those of other similar carriers granted air forwarding authority, will not create a monopoly or monopolies and thereby restrain competition or jeopardize another air carrier, or otherwise be inconsistent with the public interest.

Although REA's financial condition is precarious, it appears to be capable of performing the proposed air transportation. In its long history of participation in air express it has demonstrated a disposition to conform to the Act and the Board's Rules and Regulations. Its record in promoting air express suggests that it would conscientiously promote air cargo. However, as long as REA participates as an indirect air carrier in air express, there is a serious question as to whether its entry into the air freight forwarder field, through its affiliate REAF, would benefit air transportation and be consistent with the public interest.

36/ A long haul motor carrier is defined as a motor carrier holding operating rights issued by the ICC to hold general commodities between any pair of points which are over 500 air miles apart on such carrier.

As far back as 1948, the Board recognized a need to keep air express and air freight forwarder operations separated,[37] refusing a request by REA at that time to become an air freight forwarder. The Board determined that the distinction between the air express and air freight should be maintained, and found that the continuation of that distinction would be in the public interest. It noted that there was an element of competition between the two services which would inure to the highest development of each, and it concluded that such competitive benefit would best be preserved if the efforts of the parties dealings in each of these services were not divided and if the functions and facilities for dealing in or with both were not comingled in one agency.

While there is less distinction between air express and air freight today than in 1948 their utilities continue to be different and the Board's 1948 observations are still pertinent. Moreover, with dual rights REA would have an unfair advantage over its air freight forwarder competitors, and, as Airlines complain, air freight forwarder authority for REA presents substantial conflict of interest questions in REA's relationship with Airlines. REA would be in a position to divert air express traffic to its freight forwarding operations where it would be to its advantage to do so, and this would result in increased unit costs to the carriers and a decline in the revenue from the traffic diverted from air express to air freight. Also, as an air freight forwarder, on the one hand, (shipper) and a partner of the Airlines on the other hand, considerable problems could arise as to appropriate allocations of costs.

37/ In the Air Freight Forwarder Case, 9 C.A.B. 473, 488 (1948).

Airlines is unwilling to enter into agreement with REA if air freight forwarder authority is granted, and its position is well justified. However, as noted, REA, if required to elect between continuing in air express or becoming an air freight forwarder, it would choose the former.

On the basis of the foregoing, it is found that the public interest compels the denial of its air freight forwarder application.

REA's Request for Exclusive Air Express Authority. REA requests that it be granted authority as the sole indirect carrier of air express and that such authority be issued without dependence upon an air express agreement "although it should be contemplated that REA and some airlines may enter into agreement governing certain operational aspects of air express."

Just what REA has in mind as to how this authority would be implemented is not clear. On its face it would not appear to contemplate anything essentially different from the proposals of the Bureau and the Air Freight Forwarders for "high expedite" service, except that REA would have exclusive authority for all priority traffic and would be able to more effectively coordinate priority than under a competitive system. It would not preserve the present low rate structure of air express any more than the Air Freight Forwarders "high expedite"; and with REA having no airport facilities at approximately 400 of the smaller airports, it would have to make new air carrier agreements for the handling of air express that is now performed by the carriers at these points.

But apart from the fact that REA's proposal would not preserve all of the present benefits and advantages of the present concept of air express, which is justification in itself to deny the request, REA's touch-and-go financial condition dictates rejection of its proposed monopoly at this time. If it should cease operations because of its financial trouble, the Airlines should have the flexibility of looking for another ground agency in order to continue air express. This course would not be open if REA were granted exclusive authority.

Accordingly, it is found that REA's request to be the sole carrier of air express be denied.

Ultimate Findings. On the basis of the foregoing and all the facts of record it is found that:

1. The so-called air express service currently being provided by the airlines and REA pursuant to an agreement has a utility distinguishable from the other air freight services and is responsive to a public need;

2. The existing concept of air express, as represented by the collective participation of the airlines in a partnership arrangement with a single ground agency, is in the public interest and should be maintained.

3. REA is the only qualified ground agency willing and able to enter into agreement with the airlines to provide air express service.

4. The issuance of licenses for air express service to one or more indirect air carriers independently of any joint agreement with the airlines is not in the public interest.

5. Public convenience and necessity does not require alteration, amendment or modification of the certificates of the scheduled air carriers to authorize the provision of air express service.

6. So long as REA is an indirect air carrier engaged in air express service pursuant to agreement with the airlines, it would be contrary to the public interest to issue to REA or REAF air freight forwarder authority under Part 296 of the Economic Regulations.

7. Termination of approval of CAB Agreement 12866 would be contrary to the public interest.

8. Establishment of a special tariff for air express traffic is unnecessary in view of the present air express tariff in which the airlines and REA are participating carriers.

9. The applications consolidated for hearing and decision be and they hereby are denied and the investigation terminated.

An appropriate order is attached.

James S. Keith
Hearing Examiner
May 4, 1972

Before The
Civil Aeronautics Board
Washington, D.C.

Investigation of Air Express Rates	Docket 22387
Domestic Freight Rate Investigation	Docket 22859

MOTION FOR CONSOLIDATION

Pursuant to Rule 12 of the Board's Rules of Practice, REA Express, Inc. (REA) hereby moves that the Board consolidate for decision the Investigation of Air Express Rates, Docket 22387, and the Domestic Air Freight Rate Investigation, Docket 22859.[1/] Rule 12 permits consolidation "for hearing or for other purposes.... (Emphasis added.) The consolidation REA asks is for the purpose of permitting the Board to harmonize important cost and rate principles, but will not require the Examiner in the Freight Rate case to base his decision on anything other than the record in that case and will not require any additional evidence to be produced by any party in Docket 22387.[2/]

1. In light of the Examiner's Initial Decision in Docket 22387, dated May 1, 1972, it is clear that the interests of REA and Air Express shippers will be prejudiced by separate Board consideration and decision of Air Express and air freight

1/ We don't oppose the Air Freight Forwarders Association to defer decision until decision in the Express Service Investigation, Docket 22388; however, for the reasons stated herein, we believe that this proceeding must in any case, be deferred until decision in the Freight Rate case in order to permit the Board to harmoniz the principles in the two rate cases.

2/ All parties herein also are parties in the Freight Rate case whic remains yet to be heard. Hearing is scheduled to begin January 8, 1973.

costs and rate levels. The Examiner noted in his Initial Decision that the "primary problem" in the Air Express Rates proceeding "is the determination of the costs incurred by REA and the airlines in providing air express service," a task which proved to be "a prickly and elusive challenge." (I.D. 10)

The Examiner determined airline express costs by allocating costs from a common pool among freight, express and mail. Thus, the question of airline air freight costs is central to a determination of airline express costs. The Board has acknowledged in its order instituting the Freight Rate investigation that "meaningful study of air freight rates is hindered, if not precluded, by the lack of necessary factual data" and that whatever data are available "are probably far from uniform as among the carriers." (Order 70-12-44.) Yet these complex issues surrounding computation of airline freight costs in relation to Air Express were not dealt with at all by the Examiner in the Air Express Rates proceeding.

The attempt to cost Air Express by making an allocation of a multi-portioned pool, without determining the method to be used in costing the other segments of the pool, results in inaccuracy with a consequent severely prejudicial impact upon REA and Air Express shippers. This prejudicial error can be remedied by the Board consideration of airline express costs in the light and context of the comprehensive record and its

determinations to be made in the Freight Rate Investigation. Indeed, an administrative agency must consolidate separate proceedings if prejudice to a party results from its failure to do so. See Ashbacker Radio Corp. v. FCC, 326 U.S. 327 (1946).

2. REA and Air Express shippers are prejudiced not only by attempts to allocate freight and express costs in separate proceedings, but also by attempts to decide, in separate cases, the appropriate rate levels for each class of cargo. Air Express and air freight are in direct competition. REA has argued in the Air Express Rates case the Express and freight should be priced by the airlines in the same cost-revenue relationship.

The airlines now admittedly price freight below cost with the approval of the Board. Further, the Board's staff has indicated, in its study of the effect of wide-bodied aircraft economics, that an even stronger economic argument can be made for the use of incremental costing.

It requires no profound economic analysis to know that a competitive service burdened with costs which are not allocated to its competition can not long survive. Antitrust policy has been applied to prevent supermarkets from running their competition out of business by using loss leaders. Louisiana Farmers' Protective Union v. Great A&P Tea Co., 131 F. 2d 419 (8th Cir. 1942). See also United States v. New York Great A&P Tea Co., 67 F. Supp. 626, 642, aff'd 173 F. 2d 79 (7th Cir. 1949).

The conscious and continuing practice of pricing air freight below cost to increase market penetration at the same time as pricing Air Express on the basis of fully allocated costs raises serious questions about the misallocation of the transportation resources of this country, not to mention the problems of discriminatory and predatory pricing.

The Examiner in the Air Express Rate case treats these as matters which need not concern him (I.D. 34-38). In his view, the problem does not arise because "there is no evidence that the air express service cannot bear its full share of joint costs" (I.D. 38). Only by relying on cost data over two years old and rejecting REA's costs and projections of inflation, could the Examiner reach such a conclusion. The pretense that serious cost inflation has not existed in the last two years is hardly the cornerstone of enlightened regulatory policy. More importantly, however, the reasoning of the Examiner does not reach the crucial issue: even if Air Express hypothetically could bear fully allocated costs, is it fair, legal and in the interest of the shipping public dependent upon the service, that it be called upon to do so, when air freight is not?

If the Board should depart from past practice and determine in the Air Freight Rate Case that Air Freight has come of age so that its costs must be determined on a fully allocated basis, then perhaps it would not be unreasonable to put the airlines' share of Air Express costs on the same

basis. But to treat Air Express in that way before that principle has been applied to air freight is discriminatory and prejudicial.

Thus, the issue of the proper revenue-cost relationship for express can only be properly decided by the Board simultaneously with its decision on the proper rate level for air freight in the Freight Rate proceeding. Separate consideration of this issue would be profoundly prejudicial to REA and to the shipping public. See Ashbacker v. FCC, supra.

3. Every party to the Investigation of Air Express Rates is also a party to the Domestic Freight Rate Investigation. No party to the Express Rates case will therefore suffer any prejudice as a result of consolidation of both proceedings not for hearing but for decision of common issues.

4. The proposed consolidation will merely permit the Board to harmonize important principles; it will not require the production of any additional evidence in the Air Express Rate case. The long-run public benefits which would result from accurate and fair cost allocations as well as equitable rate levels, obtainable only by consolidation, greatly outweigh the disadvantages of delay. The existence of Air Express service, and perhaps of REA Express, may well turn on the final outcome of the Air Express Rate case; the public interest in the preservation of the service calls for the Board to decide these complex matters with the best possible data available and with the utmost fairness. Those objectives can be attained only if the Express and Freight cases are decided in light of the record made in both cases.

For the reasons stated above, REA Express respectfully moves that the Board (1) consolidate for decision the Investigation of Air Express Rates, Docket 22387, and the Domestic Freight Rate Investigation, Docket 22859; (2) stay the effectiveness of the Examiner's Initial Decision in Docket 22387 pending decision by the Board of both cases on a consolidated basis; and (3) extend the time for filing of petitions for discretionary review of the Initial Decision in Docket 22387 until after the initial decision in Docket 22859 has been issued.

Respectfully submitted,

Arthur M. Wisehart

Arthur M. Wisehart

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John J. C. Martin
REA Express, Inc.
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Of Counsel:

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Leibman, Williams, Bennett, Baird & Minow
1156 15th Street, N.W.
Washington, D.C.

May 25, 1972

CERTIFICATE OF SERVICE

I hereby certify that I have served this date copies of this Motion upon all parties to the Air Express Rate Case and the Domestic Freight Rate Investigation by first-class mail.

Peter G. Wolfe

Peter G. Wolfe

Order 72-6-27

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

Adopted by the Civil Aeronautics Board
at its office in Washington, D.C.,
on the 6th day of June, 1972

EXPRESS SERVICE INVESTIGATION	Docket 22388

ORDER

On May 25, 1972, Examiner James S. Keith issued his initial decision in the above-entitled proceeding. Pursuant to Rule 28 of the Rules of Practice, the Board will exercise its right of discretionary review of the initial decision.

ACCORDINGLY, IT IS ORDERED THAT:

1. The aforesaid initial decision be and it hereby is stayed in its entirety until further order of the Board;

2. The issues in the proceeding on review shall be all issues in the proceeding before the examiner;

3. The parties to the proceeding on review shall be the parties to the proceeding before the examiner;

4. Any party to the proceeding on review having objection to the initial decision shall file such exceptions with the Board not later than 10 days from the date of this order;

5. Briefs in support of the exceptions or in support of the initial decision may be filed thirty days after the date for filing exceptions;

6. Thereafter the review proceeding shall be set for oral argument before the Board at a time to be designated later.

By the Civil Aeronautics Board:

HARRY J. ZINK

Secretary

(SEAL)

BEFORE THE

CIVIL AERONAUTICS BOARD

WASHINGTON, D.C.

EXPRESS SERVICE INVESTIGATION	Docket 22388

EXCEPTIONS OF REA EXPRESS TO THE INITIAL DECISION

Pursuant to Board Order 72-6-27, dated June 6, 1972, REA Express, Inc. hereby states its exceptions to the Initial Decision of Examiner James S. Keith in the above-entitled proceeding.

REA submits that the Examiner erred in:

1. Failing to reflect the interests of the shipping public by concluding (a) that it is not the purpose of this proceeding to settle the differences between REA and the airlines as to the terms of their future relationship, (b) that these differences do not go to the heart of the concept of Air Express and (c) that they should be left for negotiation between the parties (I.D. 58).

2. Denying REA's request for authority as the sole indirect carrier of Air Express independent of agreement with the airlines as a group (Ultimate Finding No. 4; I.D. 63-64).

3. Rejecting REA's application for air freight forwarding authority under Part 296 of the Economic Regulations (Ultimate Finding No. 6), thereby failing (a) to give due weight to the interests of the shipping public and (b) to promote the development of air transportation by facilitating the diversion of substantial surface traffic to air.

4. Refusing to receive into evidence Exhibit REA-500, which sets forth REA's financial projections demonstrating that REA requires air freight forwarding authority to continue to be able to provide Air Express (Tr. 1752).

5. Refusing to require the production of evidence relating to the motive of air freight forwarders in seeking "air express" authority (Tr. 2255).

REA hereby requests leave to argue this case orally before the Board at such time as the Board shall set for oral argument pursuant to paragraph 6 of Order 72-6-27.

Respectfully submitted,

/s/ Craig Mathews

Craig Mathews
John S. Hoff

Leva, Hawes, Symington,
Martin & Oppenheimer
815 Connecticut Avenue, N.W.
Washington, D.C. 20006

Counsel for REA Express, Inc.

Of Counsel:

Arthur M. Wisehart
Peter G. Wolfe

June 16, 1972

CERTIFICATE OF SERVICE

I hereby certify that I have this 16th day of June, 1972, served the foregoing Exceptions of REA Express to the Initial Decision by mailing a copy by first class mail or air mail, postage prepaid, to all parties or their counsel.

/s/ Craig Mathews

Craig Mathews

Order 72-7-15

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D.C.

Adopted by the Civil Aeronautics Board
at its office in Washington, D.C.
on the 6th day of July, 1972

INVESTIGATION OF AIR EXPRESS RATES	Docket 22387
DOMESTIC AIR FREIGHT RATE INVESTIGATION	Docket 22859

ORDER

This proceeding involves an investigation of the air express rates charged by REA Express, Inc. (REA) and various direct air carriers in the U.S. and between the U.S. and Canada. Also at issue is the division of air express revenues as between REA and the direct air carriers, retroactive to April 9, 1970. The initial decision of Examiner Milton H. Shapiro was served on May 1, 1972. Therein, the examiner found that the tariff rates under investigation are not reasonably related to the costs of domestic air express service, and are unlawful. The examiner also found that the division of revenue between the airlines and REA should be determined on the basis of costs, and that the present divisions result in an underpayment to the airlines.

After service of the initial decision, the Air Freight Forwarders Association (AFFA) requested a stay of the initial decision and deferral of all further procedural steps in this proceeding pending a final determination by the Board in the Express Service Investigation. 1/ In support of its motion, AFFA says that the Service case involves the fundamental question of the continuation of the present "air exprens" arrangement, and that a determination therein that the present arrangement should not be continued would render moot the question of rates for such services, which is at issue in the instant proceeding.

Answers in opposition to AFFA's motion were filed by the 33 participating direct air carriers (Participating Carriers), the Allied American Bird Company, division of the Hartz Mountain Products Corporation (Allied), and the Bureau of Economics (the Bureau). REA filed an answer supporting AFFA's

1/ Docket 22388.

request for an indefinite extension of time for the filing of petitions for review of the initial decision herein and a stay of the initial decision. 2/

Subsequently, REA filed a motion of its own, requesting that the instant proceeding be consolidated for decision with the Domestic Air Freight Rate Investigation, 3/ on the ground that the interests of REA and air express shippers would be prejudiced by separate consideration of the cost and rate levels of air express and air freight. In support of this proposition, REA says that the examiner determined airline express costs in the instant proceeding by allocating costs from a common pool among freight, express, and mail, but that this cannot properly be done without determining the method of costing the other elements of the pool. Therefore, says REA, the airline express costs should be considered in the context of the determinations to be reached in the Freight Rate case. REA further argues that, apart from the question of allocation, REA and air express shippers would be prejudiced by attempts to decide, in separate cases, the appropriate rate levels for freight and express, respectively, since the two competitive classes of cargo should be priced by the airlines in the same cost-revenue relationship; otherwise, air express could be burdened with costs which are not allocated to the competing air freight.

Answers in opposition to REA's motion have been filed by the Participating Carriers, AFFA, and the Bureau, and REA has filed a reply.

Upon consideration, the Board has determined to deny both the motion of AFFA and the motion of REA. Although it is possible, as AFFA contends, that the Service case will ultimately be decided in a manner such as to render some of the issues herein moot, such a result is by no means certain. 4/

2/ By Order 72-5-67, issued May 18, 1972, the Board extended the time for filing petitions for discretionary review of the initial decision until 5 days after the Board's disposition of AFFA's motion.

3/ Docket 22859.

4/ We note in passing that the examiner in the Service case found, essentially, that the present air express arrangement should be maintained. The Board, by Order 72-6-27, dated June 6, 1972, has exercised its right of discretionary review of that initial decision. In any event, the issue herein of retroactive adjustments to the revenue divisions will not be affected by the outcome of the Service case.

If the ultimate determination in the Service case results in a continuation of the present air express system, deferral of the instant proceeding will have resulted in the continuation of air express rates and revenue divisions which, according to the examiner's initial decision, are unlawful.

Moreover, the cost data in the record of this proceeding is based on 1969 and 1970 operations. Therefore, deferral at this time could later cause the Board to be confronted with a choice of either resolving the issues on the basis of outdated evidence, or of remanding the proceeding for further hearing, thus greatly increasing the burden upon the parties and delaying still further the resolution of the issues herein. Finally, it should be noted that, although the outcome of the Service case would be relevant to the instant proceeding, it is equally true that the economic determinations made in the instant proceeding may well be relevant to our decision in the Service case.

Since, as we have explained, the granting of AFFA's motion would unduly delay this proceeding, the same would be true, a fortiori, of the granting of REA's motion to consolidate this proceeding with the Freight Rate case, since hearing in the Freight Rate case will not begin until 1973. Moreover although some of the evidence to be adduced in the Freight Rate case might be relevant to the issues herein, it does not follow that the appropriate rates and revenue divisions for express traffic cannot be determined from the record in the instant proceeding. 5/

Nor can we accept, as a reason for consolidation at this juncture, REA's argument that its interests, and those of its customers, would be prejudiced by separate determinations of express and freight rates. To begin with, the argument comes entirely too late in the proceeding, since the problem now raised by REA has been inherent since the institution of the Freight Rate case on December 8, 1970. Moreover, REA's contention as to prejudice is based upon the examiner's finding that air express should bear fully allocated capacity costs, whereas at present air freight does not. REA is, of course, free to argue in favor of a different substantive result. In addition, REA's contention would seem to argue in favor of lower express rates in relation to freight rates, and this is the general effect of the initial decision. In sum, although it would be desirable to avoid

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5/ Of course, REA will be able to seek whatever adjustments of express rates and revenue divisions may seem appropriate in the future.

disparities in the treatment of various classes of traffic when determining the costs which each must bear, such temporary disparities could be avoided only by determining rates for all classes of traffic in one proceeding. Since this would result in intolerable delays, we believe the public interest can best be served by proceeding to determine the rates for air express as expeditiously as possible.

Finally, the Board has determined to exercise its right of discretionary review of the initial decision pursuant to Rule 28 of the Rules of Practice.

ACCORDINGLY, IT IS ORDERED THAT:

1. The motion of AFFA to defer further procedural steps in the above-entitled proceeding be and it hereby is denied;

2. The motion of REA to consolidate for decision the above-entitled proceeding and the Domestic Air Freight Rate Investigation be and it hereby is denied;

3. The aforesaid initial decision in this proceeding be and it hereby is stayed in its entirety until further order of the Board;

4. The issues in the proceeding on review shall be all issues in the proceeding before the examiner;

5. The parties to the proceeding on review shall be the parties to the proceeding before the examiner;

6. Any party to the proceeding on review having objection to the initial decision shall file such exceptions with the Board not later than 10 days from the date of this order;

7. Briefs in support of the exceptions or in support of the initial decision may be filed 21 days after the date for filing exceptions;

8. Answering briefs may be filed 14 days after the date for filing opening briefs.

654(a)

9. Thereafter the review proceeding shall be set for oral argument before the Board at a time to be designated later.

By the Civil Aeronautics Board:

HARRY J. ZINK

Secretary

(SEAL)

EXCEPTS FROM BRIEF OF REA TO BOARD IN AIR EXPRESS RATES CASE

* * *

or 41.8%. Therefore the figure shown on his Appendix B, page 1 of 1 amounting to a $2,378,000 [1/] reduction for REA should only be $1,337,000, as shown in our Exhibit B.

DUE PROCESS VIOLATION

In addition to the errors set forth above, REA costs were determined by the Examiner in violation of due process. The Examiner set extremely short time periods for the various due dates over REA objection. This caused numerous errors in the data submitted. The Examiner then proceeded to select (from both in and out of the record) the figures most disadvantageous to REA. We renew our objections to these procedures which failed to accord REA due process of law.

Based on all of the above errors, the Board should find that REA's operating expenses for 1970 should be $60,134,000, instead of $55,786,000, as the Examiner found.

B. The Examiner Erred in Refusing to Allow REA Any Increased Costs Resulting from Inflation

The Examiner's use of REA's 1970 cost levels without any adjustment for inflation in 1971 and 1972 is contrary to the evidence presented by REA 9REA-REB-2150). The Examiner's reliance (I.D. 32) on the existence of the Economic Stabilization

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1/ This includes a transposition error of $81,000 on Examiner's Appendix C-1, page 18 of 18, footnote 1, Domestic Air Express Revenue $101,190,000 referenced to REA IR 16, page 1 of 5, showing $101,109,000.

Program affords no support for his decision. First, the program did not even commence until three quarters of 1971 had passed. Second, the Cost of Living Council's goal is an increase in the general price level of 2.5 percent annually. (Price Commission Release, November 11, 1971). Even this objective has not been reached. Bureau of Statistics data shows a 4.3% increase for 1972 over 1971 (BLS Consumer Price Index). While REA's management has attempted to reduce costs, it also presented evidence in this case that REA's costs would increase in 1971 and 1972. (REA-REB-2150).[1/] Thus, the Examiner's finding that there would be no cost increases because of management efforts (I.D. 34) is contrary to the evidence.

Although the Examiner does not explicitly rely on it to support his rejection of REA's projected cost increases for 1971 and 1972, he was obviously influenced by the argument that the contraction of REA's surface traffic in recent years has caused an increase in Air Express unit costs (I.D. 33-34). The Examiner did not consider, however, the fact that the change in traffic mix has not resulted in an unfair "shift" of costs from surface to air traffic; the change in

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1/ In late 1971, the Price Commission approved a $1 per shipment surcharge on Air Express.

traffic mix has resulted in Air Express being required to bear more of its fair share of the fixed costs for personnel and facilities incurred in REA's surface business which benefits Air Express as well.

If the decline in Air Express traffic volume has resulted in increased Air Express unit costs, that is no reason to deny REA the ability to recoup those costs. The Board should find that REA's 1970 cost level should be increased by $1.70 per shipment to account for cost increases in 1971 and 1972 (REA-REB-2150). This amount is fair and supported by evidence in the record which the Examiner ignored.

C. The Examiner Erred in Determining the Return to be Allowed REA

The Examiner's finding on return (I.D. 31), allowing REA $277,000 in return (I.D. 26), fails to apply the standard which is required by law and Board policy. That standard is "the sum of money needed to attract the capital, both debt and equity, required to insure financial stability and the resulting capacity ... to render the service ..." D. C. Transit System, Inc. v. Washington Metropolitan Area Transit Comm. 350 F. 2d 753, 779 (D. C. Cir. 1965). Instead, he routinely applied the formula rate of return on investment technique.

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by the Examiner - $277,000 on a business with $100,000,000 in annual sales - is plainly inadequate. It can be arrived at only by a mechanical application of rate of return methods ordinarily used for solvent businesses with substantial net worth, while ignoring REA's real needs. The Board should find that REA must earn a return of $3.5 million per year from Air Express in order to attract capital.

II. The Examiner Erred in Rejecting REA's Request that Freight and Express Bear the Same Revenue - Cost Relationship.

REA has urged that Air Express divisions be based on the following formula:

$$\frac{\text{Airline Air Express Costs}}{\text{Airline Air Express Revenues}} = \frac{\text{Airline Freight Costs}}{\text{Airline Freight Revenues}}$$

Air Express is a competitive service; it competes with air freight for the traffic of shippers. Unless the airlines are required by the Board to accept fair and equitable divisions from Air Express, on a non-discriminatory basis as compared with air freight, Air Express will always be greatly disadvantaged. In addition, Air Express shippers will always be forced to pay an unfair premium, pocketed by the airlines, for Air Express service. Clearly, for years the airlines have not been recouping their fully-allocated costs on air freight services. For example, United, American and Flying Tiger have

recently filed tariffs increasing freight rates, based on their contentions that they suffered losses on all-cargo aircraft. (See Statements of Justification filed June 9, 1972). The Board has found that the airlines in 1971 lost $35.3 million in all-cargo service (Order 72-7-36, July 12, 1972) and there is no dispute that the airlines also carry freight in combination service at substantial losses (DPFI, Phase 7 - Fare Level, p. 45 n. 80). The Examiner's decision that airline Air Express divisions should return to the airlines their fully-allocated costs requires Air Express to subsidize air freight losses.

Many shippers must use Air Express because they are located in small communities or they deal in unusual commodities, as Examiner Keith found in the Express Service Investigation, Docket 22388 (I.D. 42-47). In many communities, the airlines and air freight forwarders do not provide pickup and delivery service and for many commodities there is no air freight or air freight forwarder pickup and delivery service anywhere. These shippers are discriminated against when they are forced to subsidize air freight service by paying Air Express rates which are not justified by the cost-revenue relationship. The discrimination is unjust because the service received by Air Express shippers is substantially similar to the service received by air freight shippers, and

the rate difference is not caused by cost differences. Discriminatory rates cannot be justified by need for increased revenue or factors other than "those factors which regulatory practice in the transportation industry has, through experience, found relevant." Transcontinental Bus Systems, Inc. v. CAB, 383 F.2d 466 (5th Cir. 1967).[1/]

In addition, REA itself has been and will continue to be discriminated against under the Examiner's decision. Its payments to the airlines for air transportation will be determined on a fully-allocated cost of air transportation basis, while the air freight forwarders, its competitors, will pay for line-haul on the basis of air freight rates, determined on a less than fully-allocated cost basis. In Airfreight Forwarder Investigation 24 C.A.B. 755 (1957), the Board ruled that special rates for forwarders are unlawful if reasonable justification is lacking. Here the difference between the amount set for Air Express REA and the air freight forwarders pay for air transportation is not justified by cost differences, or any other valid justification, and it is therefore unjustly discriminatory.

That the rates are indeed discriminatory is shown by Appendices E and F herein. These show that for lengths of haul over 400 miles, the airline share of Air Express revenue

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1/ Examples of justification given were lower costs, extra delivery time, and standby service.

under the Examiner's tariff is consistently higher than American's return for aireconomy, a complete airport-to-airport freight service, and that the share is so close to general commodity rates that little room is left to compensate REA for its costs.

Although the Board has not yet finally determined fair and reasonable freight rates, the fact remains that REA and Air Express shippers are being forced to compete at a disadvantage with air freight forwarders and air freight shippers. This is a violation of Section 404(b) of the Act, as well as a threat to the existence of Air Express service. REA raised these questions of rate discrimination as early as its Petition and Complaint, filed on April 9, 1970. The Board should therefore establish airline Air Express divisions in the same cost-revenue relationships the airlines have for air freight as expressed in the following formula:

$$\frac{\text{Airline Air Express Costs}}{\text{Airline Air Express Revenues}} = \frac{\text{Airline Air Freight Costs}}{\text{Airline Air Freight Revenues}}$$

* * *

the Board has found such costs in previous cases to which REA was not a party.[1/] There must be evidence in the record of this case to support the finding of such costs -- and there is none.[2/] Neither the airlines nor the Bureau, throughout this proceeding, has been able to specify a single penny of capacity cost attributable to priority or to density.

The Examiner also relied on the Board's statement in the Nonpriority Mail Rate case that the costs of "unused capacity" should be allocated. But the Examiner ignored the Board's more recent refusal, in the DPFI, to charge the public for all the costs of excess capacity. If the same theory applied to REA it could allocate to Air Express with priority and density weightings the costs of unused joint surface and air terminal and truck capacity. The result, of course, would be rates so high as to drive away all Air Express business.

Not only is the Examiner's finding that costs result from priority and density unsupported in the record, but so are the amounts of the adjustments. The Examiner

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1/ See note on page 22, Supra.

2/ The Examiner refused to delay the hearing to include in the record a study of priority which the airlines submitted in the Express Service Investigation, Docket 22388. This study would have established that between 1 and 2% of flights of seven airlines tested left cargo behind because of lack of space or time available. These facts would have established that the true availability of capacity does not warrant priority adjustments.

* * *

limited airline functions are at least 3 times and perhaps up to 10 times more costly to perform for Express as for freight. Only by such monumental multiplication of probable real costs for priority can he reach the desired goal that the conclusion that the limited functions performed by the airlines for Express cost as much as performing all functions for freight.

As justification, the Examiner, contrary to the record in this case, claims that Express "has first call on the common pool of labor and facilities" and Express "uses it with greater frequency." (I.D. 62). These unquantified shreds of support fall far short of justifying the many-fold increase in unit cost made by the Examiner. In addition, Express has third call, after baggage and mail, not first call.

REA's estimates acknowledge that an Express ton costs the airlines more to load, unload and move between aircraft and REA terminal than does a ton of freight. The allowance for this appears in REA-1087A where Item A 3 (Col. C) was increased by a factor of some 6 times that used by UAL[1/] for performing these functions for freight carried on combination aircraft. The substantial upward factoring of the UAL purported costs (arrived at by an industrial engineering survey) is more than adequate to allow for the special handling characteristics of Express.

The careful analysis made by REA's witness McIntosh is strongly supported by an exhibit (I.R. 22) filed

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1/ UA-9 as shown in REA-1087A.

by United Air Lines in the Domestic Service Mail Rates Investigation, Docket 23080. This exhibit, an engineering study of the noncapacity costs of mail, freight and Express in all-cargo and combination aircraft, reaches results which closely approximate the judgments made by Mr. McIntosh and directly contradicts the evidence presented by the airlines in this case. This study shows that hand loaded Express requires only 70 man-minutes per 1000 pounds for loading, unloading, runners and coverage, while all-cargo freight requires 60 man-minutes. Thus, Express ground handling costs are only 1.17 times ground handling costs for all-cargo aircraft, less even than the 6 times all cargo costs estimated by Mr. McINtosh and far less than estimated by the airlines. Shortly after the hearing, REA moved that the record be reopened to receive the United study. The Examiner erred in denying the motion. The Board should receive the study for the record and use it to confirm Mr. McIntosh's conclusions.

The Examiner violated due process of law in admitting and relying upon the testimony of two airline witnesses, Mr. Jacks and Mr. Patterson. The Jacks exhibit (PC-RT-2) should not have been admitted. The exhibit sponsored by the witness was merely a small part of a larger study of freight costs, which was in progress at the time of the hearing (Tr. 792). But REA was prevented from cross-examining Mr. Jacks on the study of which his exhibit was only a part (Tr. 793) and was thus unable to probe the accuracy of the study which

the Examiner apparently relied upon (I.D. 57). The Board should exclude the Jacks exhibits and testimony. See Order 71-7-67 (July 13, 1971) in Increase in Signature Freight Service Charges Proposed by American Airlines, Docket 23602. The Examiner erroneously stated that Mr. McIntosh relied upon the Jacks study (I.D. 57). This is not so. Mr. McIntosh used another, earlier United study (AU-9 in Docket 20398) as a guide only (REA-1086A) (REA-1000, pp. 7-9). Similarly, a study prepared in 1968 by Booz, Allen & Hamilton, commissioned by the airlines, and admitted in evidence in the Express Service Investigation, Docket 22388, is inconsistent with the evidence introduced in the record in this proceeding by the airlines and in harmony with Mr. McIntosh's analysis. The Examiner erred in denying REA's motion that the study be received in this record. The Board should admit the study and consider it in connection with Mr. McIntosh's exhibits.

Also contradicting the airlines' evidence in this case was the testimony of L. John Eichner in the Express Service Investigation. L. John Eichner was the airlines' principal witness in this proceeding and the service case. REA's motion to include in this record portions of Mr. Eichner's testimony in Docket 22388 was also erroneously denied by the Examiner. Mr. Eichner testified in the Service case that Air Express minimum charge shipments are cheaper for the airlines to carry than minimum charge freight shipments. This too should be admitted by the Board and considered in connection with Mr. McIntosh's testimony.

73-12-36

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

- - - - - - - - - -

Docket 22388

EXPRESS SERVICE INVESTIGATION

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Decided: December 7, 1973

1. Agreements providing for air express service between REA Express, Inc., and participating scheduled airlines and among the participating airlines disapproved, and prior approvals withdrawn.

2. Exemption authority of REA Express, Inc., to conduct air express service terminated.

3. REA Express, Inc., awarded air freight forwarder authority.

4. Scheduled air carriers found to have obligation to offer priority service as part of their duty to provide adequate interstate and overseas air transportation.

OPINION

BY THE BOARD:

I. INTRODUCTION

This is a proceeding to explore the role of express service in air transportation. The crucial issue in the proceeding, from the start, has been what action the Board should take in respect to the indirect air carrier authority of REA Express, Inc., and the related agreements between the various airlines and REA.

Administrative Law Judge James S. Keith concluded, after presiding at a lengthy hearing on the matter, that express service in its present form serves a useful public purpose and should be maintained basically without change. In support thereof he found (1) that there are important differences between air express and other forms of air freight, i.e., that air express is cheaper, faster, provides more comprehensive geographic and commodity coverage, and enjoys the exclusive benefit of priority treatment by the airlines; (2) that the present type of inter-airline agreement and the type of agreement between the airlines and REA are essential to the existence of air express service and should therefore be continued; and (3) that REA is the only qualified ground agency willing and able to enter into agreement with the airlines to provide air express service, and should therefore be continued as the exclusive indirect air carrier of express.

By Order 72-6-27, June 6, 1972, the Board exercised its right of discretionary review. Briefs were filed by Allied American Bird Co. (Allied), Bureau of Operating Rights (BOR), REA Express, Inc. (REA) and

Southern Pacific Air Freight, Inc. (SPAF). The Air Freight Forwarders Association (AFFA), Emery Air Freight Corporation (Emery), the National Industrial Traffic League (NITL), and the Participating Airlines (airlines) adopted their briefs to Judge Keith as their briefs to the Board.

The airlines generally agree with the findings and conclusions of Judge Keith.

REA agrees with Judge Keith's conclusions concerning the utility of air express and REA's role as the exclusive indirect carrier thereof. But it contends that the judge failed to take steps necessary to insure the continuation of REA and express service. REA claims that if the Board maintains the status quo, as recommended by the administrative law judge, it will not be able to continue to provide service in many markets. In order to avoid this result, it urges the Board to adopt three courses of actio First, the Board should award REA permanent authority as the exclusive indirect carrier of express. Second, it should reform the airline-REA agreement so as to (1) eliminate rules therein that require REA to divide up shipments among all available air carriers; (2) permit REA to offer the shipping public air express tariffs free of airline control; and (3) permit REA to consolidate and containerize air express traffic. Third, the Board should award REA air freight forwarder authority in addition to its exclusive air express authority. In this respect, REA maintains that it needs air freight forwarder authority in order to spread the costs of air express over a greater volume of business than air express is capable of generating.

The two shipper parties, NITL and Allied, agree that there is a need for air express service. NITL supports the findings and conclusions of the Initial Decision. Allied wants the Board to take steps to eliminate the threat of a discontinuance of air express service resulting from the inability of the airlines and REA to agree to terms.

BOR and AFFA urge the Board to cancel the air express agreements and to terminate REA's exemption. In their view: (1) there are no material distinctions between air express service and air freight service provided by the airlines directly or by the forwarders indirectly, and that accordingly, there is no basis for affording REA different regulatory treatment from the forwarders; (2) the present air express arrangement is otherwise contrary to the public interest. BOR and AFFA generally agree that there is a need for air freight services of a highly expedited character to handle freight involving life or death commodities, highly perishable products, or articles that must reach consignees particularly rapidly for various reasons. To accommodate this type of traffic, BOR recommends that the direct air carriers file tariff rates and rules providing for whatever special handling may be required. Such tariffs would be available not only to the air freight forwarders and the general public, but also to REA, which should be given air freight forwarding authority under Part 296 of the Economic Regulations. 1/

Oral argument has been heard, and the case stands submitted for decision.

1/ Emery and SPAF generally agree with the BOR position. However, Emery would limit the high priority tariff to "humanitarian commodities" and those critical to the national defense. SPAF is willing to accept BOR's proposal, but, if the concept of air express is maintained, SPAF urges that a limited number of forwarders now offering an express type service also be granted air express authority.

II. SUMMARY

Earlier Board decisions established air express as a separate service, apart from all other air cargo services, and granted REA a monopoly to conduct that service. For some time, however, REA's operations have been on the brink of extinction. In the first place, the very existence of express service today is wholly dependent upon a 1970 court decree requiring REA and the airlines to continue service. Not only have the parties been unable to agree on the terms of express service, but their long-smoldering disputes threaten to erupt again in the future, thus jeopardizing the express scheme. Secondly, REA is financially impoverished and, by its own statement, does not want to continue service under the present regime.

The real issue, therefore, is not whether to continue the separate service known as air express, but whether to attempt to change it -- or to replace it entirely. Neither choice is inviting. The first alternative requires strengthening REA's monopoly position at the expense of the airlines and forwarders and, quite likely, shippers as well. The second alternative is to let air express become part of the general air cargo business and, by licensing REA as a forwarder, allow REA and other forwarders to serve all or most of this market, probably at somewhat higher rates. Either alternative entails some risks and uncertainties about the future. As we see it, the latter choice is the best available to us.

REA seeks to expand its present authority because it cannot continue air express service unless it returns to profitability. To accomplish this, REA

insists that it not only be allowed to maintain its stranglehold over air express, but also be given an air freight forwarder's license. But the Board cannot find that REA's possession of dual air express-air freight forwarder authority would be in the public interest. On the contrary, it would place REA in a position to dominate the entire indirect air carrier industry, with consequent adverse impact on the development of air freight. It would cause serious confusion for REA's customers as to nature of the services any given shipments would receive. And it would divert REA's energies away from small shipment, small community, service.

In any event, REA's partners in express service, the airlines, have served notice that they would refuse to enter into an air express agreement if REA acquires dual authority. So this option is not available as a practical matter.

In addition, REA wants the Board to reform its express agreement with the airlines so that REA would have ratemaking powers free from airline veto. That request is neither feasible nor desirable; it would only breed a host of new problems. Again, independent rate authority would simply divert REA's energies away from small shipment, small community traffic. It would present insoluble regulatory problems since the data needed to evaluate proposed rate changes would not be available. And it would increase the likelihood of sudden disruption of service resulting from irreconcilable differences arising between the airlines and REA. Finally, to the extent REA's proposal could be put into effect, the likelihood is high that the grant of independent ratemaking authority would not increase REA's traffic enough to make REA profitable again.

Because of these reasons, REA cannot be given the authority it seeks -- unless the chance that it could thereby continue its separate express service is so vital that it outweighs all other considerations. That is not the case. For, as this nation's general air freight industry has grown and developed, many of air express' historical advantages have withered away. No longer is air express faster than general air freight service. The priority status of air express shipments rarely has any impact, and in any event, shipper requirements for priority service can best be made by airline tariffs specifically intended to meet those needs. Finally, in terms of geographical and commodity coverage, few (if any) points, and no commodities, will go unserved as a result of the termination of air express. In sum, an end to air express will not deprive the public of any unique services.

This decision marks a change from the Board's 1948 conclusion that "the public interest requires the continuance of [REA's] air express service."[2/] That finding, which was not meant to be binding for all time, reflected the infant state of the new air freight industry. Until 1944, all air cargo was carried as air express. The first airline began carrying air freight (as distinct from air express) that year; and the first forwarders were

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2/ Air Freight Forwarder Case, 9 C.A.B. 473, 483. Even at that time, the airlines regarded the REA arrangement as temporary "until the airlines as a group were ready to take over all express operations." See National Air Freight Forwarding Corp. v. C.A.B., 197 F.2d 384, 388 (D.C. Cir. 1952). In 1955, without a full-fledged re-examination about whether an express service (separate from air freight) was still needed, the Board continued REA's authority on the ground that, at that time, "There is no substitute available * * *." Air Freight Forwarder Investigation, 21 C.A.B. 536, 564, 630. Of course, even after REA's express authority terminates, the airlines remain free at all times to provide express service themselves.

authorized to begin operations in 1948. Standing then at the beginning of a new era, the Board could not know that twenty-five years hence REA would be nearly destitute, that the newly-authorized forwarders would be offering fast, comprehensive service, that REA would be unwilling to continue nationwide express service except with drastically expanded authority, and that the likelihood would be low that REA could continue its existing service even were that new authority to be granted. As a result of these developments, the Board no longer has the option to continue express service in the format contemplated in 1948, and consequently, cannot reach the same conclusion.

In contemplating air express' demise, the Board is aware that this service offers the lowest nongovernmental rates[3/] to many small-package shippers. This would be a compelling reason to continue air express if that were possible. Indeed, the Board has given serious thought to inviting the parties to continue operations under the present contractual arrangements. Even if REA were willing, however, it would be forced to curtail many of the present services which have justified keeping air express as a separate service. And once REA is reduced to paralleling those services which airlines (and forwarders) already provide, the airlines' continued willingness to support REA as both a partner and a competitor is open to doubt. Moreover, although REA might somehow muddle through for awhile, it would only be postponing the inevitable collapse. For, under any arrangement satisfactory to the airlines, REA cannot cure its financial plight. And, if REA gains basic advantages it seeks, it cannot avoid rancorous disputes with the airlines. Whether or not the arrangement is revised, express service will remain in chronic danger of sudden suspension.

3/ U.S. Postal Service rates are often lower than those of air express. See p. 23, n. 30, infra.

The time has come to lay a solid groundwork for a dependable small-package service. That is not possible so long as REA's express service continues to exist. For, while REA continues its monopoly, and offers its low rates, air freight forwarders cannot economically afford to expand into REA's special markets and offer competitive small-package service. Once air express markets are opened to all, including REA, small-package shippers will have the chance to gain the benefit of a truly dependable service. And they will be released from the constant threat that the only available service will suddenly disappear.

In the long run, we believe, this result will best serve both the public and REA. Once REA becomes an air freight forwarder instead of an express carrier, it will be freed of artificial constraints and have a genuine opportunity to rehabilitate its finances. Moreover, once the express monopoly ends, both airlines and freight forwarders will be encouraged to fill any service voids and to achieve, as a result of competition, a more optimum balance of price and service.[4/]

4/ Except to the extent modified herein, we adopt as our own the findings and conclusions of Judge Keith.

III. BACKGROUND

Air express is one of the three types of federally regulated air-cargo service available to the shipping public today.[5/] It is a service of the scheduled air carriers[6/] and REA,[7/] and is provided pursuant to two inter-airline agreements. The first (Agreement CAB 12866) organizes the airlines into a collective unit for the purpose of dealing with the matter of air express service and with REA (the "ground agent") through an authorized Air Express Negotiating Committee. The second (Agreement CAB 17935) joins the airlines and REA (the chosen ground agent) into a type of partnership for the provision of air express service.[8/] Under the Air Express Agreement, it is the responsibility of the airlines to provide airport-to-airport service for a "normal" amount of air express on a priority basis, and it is REA's obligation to provide various ground and administrative services. However, at the airports where REA has no airport field offices (approximately 85 percent of the air carrier airports in the country), the air carriers perform all ground services (such as transfers between aircraft, routing of shipments, receiving and delivery over-the-counter shipments, and paperwork).[9/] The airlines

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5/ We will here use the term "air cargo" to include both air express and air freight.

6/ The others are airline air freight and air freight forwarder air freight.

7/ At the time of hearing, 31 U.S. carriers (including two helicopter operators and three all-cargo carriers) and two foreign-flag carriers (Air Canada and Air France) were parties to the air express agreement with REA.

8/ The agreement between the airlines, on the one hand, and REA, on the other, will sometimes hereafter be referred to as the "Air Express Agreement."

9/ The Air Express Agreement contemplates, however, that REA will perform the billing and claims handling and also the paperwork for shipments picked up or delivered or received at REA's non-airport terminals.

estimate that 28 percent of all air express shipment handlings occur at these airports.

Air express offers broad geographic and commodity coverage, and a relatively simple rate structure that is designed to be particularly attractive for small shipments moving relatively short distances. While door-to-door service is provided without extra charge, a substantial percentage of air express shipments move on an airport-to-airport basis because of the delays inherent in pickup and delivery service. Because the rate structure for air express is constructed on a weight and mileage block basis, air express rates do not take account of market density considerations or the rates of competing carriers. Air express rates are generally not affected by the nature of the commodity shipped.

The last Air Express Agreement to receive Board approval was entered into in 1964 and expired on June 30, 1969. After a delay due to a change in ownership of REA,[10/] negotiations between the airlines and REA on a new agreement were undertaken,[11/] but proved fruitless. Finally, on April 4, 1970, REA filed a Petition and Complaint with the Board (Docket 22096) indicating that the differences between it and the airlines were so basic that they could

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10/ For nearly 40 years REA was owned and controlled by the nation's railroads. However in 1969 the railroads sold their controlling interest to REA Holding Corporation, a newly-organized company owned by management officials and outside investment firms. At the time of hearing, the holding company owned 99.2% of REA's stock and the fractional balance was owned by two railroads. The railroads have an option to buy back 19.8% of REA's stock by July 1974. The holding company also owns all of the stock in The Express Company, Inc., which has recently been awarded international air freight forwarder authority. See Application of the Express Company, Inc., For International Air Freight Forwarder Authority, Orders 72-10-60 and 72-12-43.

11/ The parties agreed to extensions of the 1964 agreement during the talks.

not be satisfactorily resolved without Board intervention. The airlines answered by stating that the termination of the air express agreement was preferable in their view to an agreement that would constitute a surrender to REA's demands. The instant investigation was instituted on July 23, 1970, partly in response to the parties' inability to settle their differences informally. However the dispute continued unabated thereafter. REA refused an airline offer to extend the agreement beyond July 31, 1970 (the expiration date of the last agreed upon extension), and the airlines responded by embargoing all air express shipments, effective midnight on that date. At this point various shipper groups sought and obtained court orders that required the airlines and REA to continue air express operations pending a determination in this proceeding and a contemporaneous investigation of air express rates in Docket 22387. 11a/

The parties are now operating under an interim agreement, scheduled to expire 60 days after the date of the final orders in both cases. It is likely, therefore, that but for the court orders and these investigations, there would have been no interim agreement, and, hence, no air express service.

Turning to REA, it operates as both an ICC-regulated surface express carrier, and as the airlines' express service ground agent. It has run into trouble in both areas. Its surface traffic has declined from about 47 million shipments in 1967 to 15 million shipments in 1970. Since REA's farflung organization depends on a large volume of traffic for its viability, the decline in surface traffic has put heavy pressure on REA's air express functions. But REA's air express traffic, while not suffering continuing declines comparable to its surface traffic, has not been increasing rapidly either, in marked contrast to the air freight traffic of air freight forwarders.

11a/ Investigation of Air Express Rates (hereafter the "Rates" case or proceeding).

Express and Air Freight Traffic, 1960-1970[12/]
(Thousands of tons)

Calendar Year	REA Express	Direct Air Carriers	Air Freight Forwarders
1970	122	2,145	640
1969	134	2,049	512
1968	136	1,830	391
1967	121	1,564	295
1966	118	1,442	239
1965	110	1,266	218
1964	96	1,004	163
1963	84	827	128
1962	82	769	110
1961	73	N.A.	98
1960	70	522	N.A.
Percentage Increase Five Years 1966-1970	3%	49%	168%

Largely as a consequence of the foregoing, REA's financial position has deteriorated drastically.[13/] It has survived in recent years only by selling off capital assets amounting to $48,000,000, and at the present time its saleable assets are virtually exhausted.

12/ Air parcel post figures for the 1960-1970 period are difficult to utilize because of definitional changes in the 1960's. However, for three years 1968-1970, air parcel post shipments increased from about 123,000 tons to about 185,000 tons.

13/ REA's net worth in 1970 was minus $26,000,000. Its last profitable year was 1965, when it earned about $1,000,000. Since then (through 1972), it has lost about $68,000,000.

IV. AIR EXPRESS WILL FILL NO UNIQUE SERVICE NEEDS

Notwithstanding REA's perilous condition, the Administrative Law Judge recommended that air express be continued because he thought that it provided a unique service. Insofar as the Law Judge viewed air express as irreplaceable from the standpoint of service convenience, we cannot agree. In the early days of air freight, air express did possess many service advantages over conventional air freight. Many of those advantages no longer exist; others are likely to disappear soon; and the remainder can be achieved through other means.

A. Speed of delivery and priority treatment.

REA and its supporters have long claimed that air express service is unique in that: (1) it is faster than other forms of air cargo transportation, and (2) its priority rights insure that a shipment will travel on the earliest flight out. In fact, however, air express generally is not faster than air freight forwarder service, and is often slower; the priority rights of air express

shipments only rarely have any effect; and to the extent that extra-quick transportation and priority rights are useful to shippers, they can best be provided by airline tariffs so providing, without being tied, as they are now, to door-to-door air express service offered solely through REA.

Air express is not faster. The weight of the evidence of record establishes that air express is not unique in providing expeditious service to the public; other forms of air freight provide service that is as fast, or faster than, regular express service. Indeed, even the airlines, a partner and strong supporter of continuing the express arrangement, concede this point and for good reason. Shippers use air transportation to save time, and the forwarders, among others, appreciate that in their competitive environment they must provide fast and efficient service in order to survive. Consequently, the forwarders have developed services and operational techniques that are comparable, and in some instances superior, to express service: (a) both types of service provide for the shipment to be picked up and placed aboard aircraft the same day, and to be delivered at destination the "next day," 14/ when airline schedules reasonably permit, otherwise the second day; (b) forwarders, like REA, tender shipments to the airlines throughout the day to achieve maximum speed of delivery; (c) express service does not provide for faster ground handling; and (d) as we shall discuss shortly, the priority feature of express generally has no significant effect upon the movement of air cargo.

14/ A shipment that is delivered within 48 hours of the time that it had been picked up is considered to be a "next-day delivery" in industry usage. See Initial Decision at 39.

Elapsed time surveys conducted by the parties support the conclusion that air express is simply not faster than air freight. While these surveys have a number of failings,[15/] they nevertheless do indicate that in the nation's major markets, at least, REA's services do not produce an elapsed time distinguishable from other air freight services. The results of these surveys are set forth at 39-41 of Judge Keith's Initial Decision. Summarized here, the surveys showed that the majority of air express and air freight shipments received next-day service, and nearly all shipments received at least second-day service. Indeed, Emery's survey showed that Emery provides faster door-to-door service than REA; and REA's own survey, using REA's own standards, corroborates Emery's.[16/]

Priority treatment rarely has any impact. The air express arrangement has long provided that the airlines will give space priority on aircraft to express shipments. In 1948, when air cargo space was very limited, the Board found that priority was a distinguishing characteristic of air express. But circumstances have changed. While the amount of cargo moving by air has increased dramatically, the amount of cargo space operated by the

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15/ See Initial Decision at pp. 39 and 48.

16/ REA's figures indicate that both REA and Emery achieved identical first-day performance (45.8%). However, at the hearing it was established that Emery's performance was even better since a number of shipments, not reported by REA, were also delivered on the first day. Tr. 2670. More specifically, REA's survey indicates that Emery achieved comparable first-day service, and faster second-day service (i.e., 92.3% of Emery's shipments were delivered by the end of the second day, as compared to 87.5% for air express).

airlines has increased even faster.[17] Thus the problem today is not finding cargo capacity, but filling it.[18] A survey conducted by the airlines, and submitted into evidence in this proceeding, shows the effect of that plethora of cargo capacity on the value of the priority aspects of the air express. Of the flights surveyed, only one out of every 58 (1.7%) departed without sufficient space to accommodate the cargo tendered for the flight.[19]

17/ As illustrated by the table below, the percentage of available cargo capacity that now goes unused is high:

UNUSED CARGO CAPACITY, Scheduled Domestic Service

	(Fiscal Year 1973)
All carriers in scheduled domestic service	70.5%
Trunks and Pan American	72.5
All Cargo Operations	39.9
Local Service Carriers	74.7

In large part this is due to the vastly increased cargo capacity of present-day aircraft, as listed below:

Post 1955* Combination Aircraft		Pre-1955* Combination Aircraft	
Aircraft Type	Cargo Capacity (Cubic Feet)	Aircraft Type	Cargo Capacity (Cubic Feet)
B-747	6,250	DC-7	750
L-1011/DC-10	3,000	DC-6	350
DC-8/B-707	1,350	Constellation	450
B-727-200	850	DC-4	250
DC-9	600	DC-3	85

* The Board's last formal review of air express was in 1955.

18/ See Motor Carrier-Air Freight Forwarder Investigation, Opinion on Remand, 69-4-100, pp. 11-12; Household Goods Air Freight Forwarder Investigation, 72-7-33, pp. 4-5.

19/ Of 37,500 flights surveyed, 650 left cargo behind because of full cargo holds. Noting that the survey was conducted during a non-peak traffic period, the Law Judge intimated that more cargo might be denied boarding in holiday and other peak seasons (I.D. 33, 48, 52). On this record, however, it would be speculation to assume that the percentage of flights departing with cargo holds full during peak periods is materially different than the figures resulting from the airlines' survey.

Thus the utility of the priority provisions in the air express agreements is very limited, as even REA conceded elsewhere.[20] Moreover, as we now discuss, shipper requirements for priority service can best be met by airline tariffs specifically intended to meet those needs.

High Priority Tariff. The evidence before us shows that notwithstanding the considerations discussed above, highly expedited service that gets priority treatment is useful to various shippers, and that they use air express to satisfy these requirements. Upon consideration of the record herein, we find ourselves in agreement with those shippers that there is a need, albeit a very limited one, for service of that nature. We have further concluded that such a need can and should be met through the publication of high-priority tariffs by the various direct air carriers.[21] We discuss this matter more fully below, and only note here that as a result of this determination shippers interested in priority status for their shipments will be able to get it from both the direct air carriers and air freight forwarders, and REA's monopoly over such service will be ended.

B. Geographic Coverage.

REA, like the direct air carriers and the air freight forwarders, does the vast bulk of its business in a relatively few large markets.[22] Nonetheless, while REA is under no mandate to serve any given point, REA has long provided broader geographic coverage than the direct air carriers or any air freight forwarder. Previous Board decisions approving the air express system were based, in part, on this factor.

On the other side of the coin, as we weigh the evidence of record, few (if any) points would go unserved as a result of the termination of air express

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20/ See Initial Decision, Rates Proceeding, at page 38.

21/ At pages 38-39.

22/ For example, REA's own exhibits show that 6 cities produced 56% of its total air express shipments, and only 4% of its combined offices produced 82% of its total air express shipments. Similarly, they show that 87.4% of REA's gross O&D revenues come from only 6.5% of the thousands of offices it claims it has. See Exhs. REA-T-8, p. 4; REA-202, p. 2; REA-205 and REA-212. See also Exhs. AFFA-R-11.

service. To begin with, the direct air carriers offer air freight service, including pickup and delivery service, to and from virtually every air carrier airport city, and its environs, in the United States.[23/]

The larger forwarders also offer service to virtually every air carrier airport city, and serve about as many cities with exclusive stations[24/] as does REA: 66 for Emery, 56 for Airborne, and 69 for REA. When the forwarders' intermodal service is added to the picture, their systems are comparable to REA's. For example, two of the larger forwarders offer coordinated air-truck service to approximately 17,800 points beyond airport terminal areas.[25/] In fact, the larger forwarders now have authority from the ICC that permits them to provide pickup and delivery service at any point in the U.S., provided only that some part of the movement is by air. Accordingly, the forwarders have ample regulatory authority to offer nationwide geographic coverage.

Secondly, it is our judgment, based upon the evidence of record and the history of the air freight forwarder industry, that many (if not all) gaps in geographic coverage resulting from a termination of air express will be quickly filled by freight forwarder expansion. The record is replete

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23/ As a general rule, direct and indirect carriers may file tariffs providing for pickup and delivery service within twenty-five miles of an airport, or the city limits of a certificated point, whichever is larger. The vast preponderance of the U.S. population lives and works within 25 miles of the nation's 500 air carrier airports.

24/ REA operates only 69 airport field offices with its own employees. Of this total, 37 are operated exclusively by air express employees, and 32 are operated by REA employees engaged in both surface and air express activities. As indicated previously, airline employees, rather than REA employees, perform the airport terminal functions normally associated with air express shipments at all other airports.

25/ Exhs. EAF-T-2 and AFFA-100, 101.

with evidence of air freight forwarder plans to that effect.[26] And air cargo industry economics make it most likely that those plans will bear fruit.

But even if forwarders cannot expand as expected, they can surely match REA at those communities which REA could continue to serve in the future. For REA's historic broad geographic coverage is clearly a

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26/ For example, Emery states that if REA discontinues operations, it will bridge resulting gaps in air freight service. Thus it testified:

> "Emery is prepared to assume [the responsibility in] its present tariff to provide [transportation for] all of the commodities that are presently found in the current air express tariff, and further to add all of the points that are not presently in Emery's air freight forwarding tariff in order that there can be a continuation of the same type, scope, commodity and points of service as is presently contained in REA's air express activities. We believe that the air carriers themselves would file some sort of a complementing tariff similar to their air freight tariff that would provide the underlying air carriers with the same sort of service to be held out to the public and to be used by air freight forwarders in the event of demise of REA.
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> "Such would be an airport-to-airport tariff, . . . there would not be any gap in continuation of the type of air express service in the event that REA disappears." EAF Brief 19-20; Tr. 2663-2664.

Similarly, Airborne states that if the Board permits it to offer express-type service, such as we are proposing to do herein, it will convert its 141 destination agencies to outbound generating points. This, of course, is in addition to its 56 airport offices. It further anticipates that in one year it would set up a total of 400 generating points for both conventional air freight and high priority traffic. AFFA also states that other forwarders represented by it contemplate similar expansion in their service if they are authorized to offer an express-type service. See, e.g., Tr. 2261-2262; Exh. AFFA-LR-16.

relic of the past. Not only is REA already consolidating its service, but it must soon retrench if it is to survive. As REA concedes, it will pull out of many small communities unless it can improve its profitability by means of expanded authority.27/ Elsewhere we explain why REA cannot be granted the new authority it seeks and that, in any event, that authority would not cure its financial woes. Suffice it here to say that no community will lose air cargo service solely because of our action.

C. Commodity Coverage

As discussed above, termination of air express would not reduce the geographic coverage of air cargo. Similarly, no commodity presently moving by air will be precluded from continuing to do so as a result of our decision herein.

REA presently carries only about 18 more items than do the airlines and the larger forwarders. (Thus for all but a fraction of the millions of shipments moving in air transportation, REA's commodity coverage is coextensive with that of the forwarders and the airlines.) Moreover not even these few commodities will lose service as a result of the ending of air express.28/ REA, as an air freight forwarder, will be fully authorized to continue to handle all of the commodities, and provide all of the services, it presently offers. In any event the record shows that even were REA to turn away from such business, it would be handled by the direct air carriers and other air freight forwarders.

27/ For the same reasons, REA will reduce the number of commodities for which it offers service.

28/ As noted above, REA will be forced to reduce the number of commodities for which it offers service if the present air express regime is continued.

By way of example, we consider the carriage of live animals and birds, and security services (items singled out for special emphasis by the administrative law judge). We appreciate that in the past many shippers of animals and birds were dependent upon air express, since REA provided the only extensive door-to-door service for these commodities. As to the future, however, it is apparent that other air cargo services should fully meet the needs of these shippers. The airlines have recently included live animals and birds in their pickup and delivery service. And the forwarders have stated that they plan to provide similar services of their own. (The airlines and forwarders are demonstrably fit to handle such shipments and have done so in the past.) Additionally, there is no evidence in the record that there will be any harm of grievous delay to birds and animals if they are shipped via air freight rather than air express. Shippers of birds, for example, have stated that they now use air freight service to transport birds to quarantine areas, and use air express for further distribution. In the future these shippers should be able to use either the forwarders, including REA, or the airlines for the entire operation.

Similarly, there will be no injurious hiatus in the transportation of valuables or other commodities covered by REA's security services. For one thing, Emery has demonstrated that it would provide this service if the express category of freight is abolished. For another, the air

freight industry has reached a stage of development where specialized forwarders are now providing security service comparable to REA's.29/

In sum, as we read the evidence before us, no community will go unserved as a result of the termination of air express, and no commodity will be precluded from moving by air. The record also shows that transit time for REA shipments does not vary materially from that of shipments handled by air freight forwarders, and that, in any event, highly expedited service by the direct air carriers is feasible and, indeed, is part of their duty to provide reasonable transportation.

In all these ways, in other words, cessation of air express service will have no material impact on the public.

29/ See, e.g., Orders 69-3-31, 69-5-50, and 71-7-53. The last-named order refers to Wells Fargo Air Express (WFAX), which states in this proceeding that it will specialize in express-type transportation of currency, coin, gold and silver bullion, securities, jewels and other valuables. Tr. 1711, Exh. WFAX-T. Its exhibits suggest that its service will be similar to, and in some respects superior to, REA's. Furthermore, we note that another well-established security specialist, Brink's Inc., has recently applied for air freight forwarder authority, and indicates that it intends to provide extensive services similar to those offered by Wells Fargo. (Docket 25687)

V. THE PRESENT SYSTEM CANNOT BE MAINTAINED

In many markets air express offers lower rates for small-package shipments than do either the direct air carriers or the air freight forwarders.[30] This fact constitutes a compelling argument for continuing the service if such continuance were feasible. However, based upon the record in this proceeding and many years of experience with the present arrangement, we are convinced that the basic realities of the situation offer no practicable way of retaining the present air express arrangement.

Air express is a joint arrangement that hinges on the maintenance of an agreement between two parties whose interests have long been divergent and are becoming ever more so. Indeed, air express is currently being operated solely by virtue of a court order preventing termination of the underlying agreement pending the conclusion of this proceeding. The airlines, on the one hand, and REA, on the other, have been unable to agree even on the basic question of what share of air express revenues each should get. Disagreement here hinges not only on what cost accounting theories should be used to determine each party's share, but also on the accuracy of raw cost and traffic figures.[31]

30/ See Initial Decision of Administrative Law Judge Shapiro in the Rates case. Since the date of that decision air express and air freight rate levels have changed substantially. On an overall basis, both have increased. Comparisons of present air express rates (rounded to the nearest dollar) with the present and proposed priority mail rates are as follows:

Weights		300 miles	1,000 miles	1,800 miles
5 lbs.	air express	$12	$12	$12
	present postal	3	3	4
	proposed postal	3	3	4
15 lbs.	air express	12	13	16
	present postal	7	9	11
	proposed postal	6	8	9
25 lbs.	air express	12	16	20
	present postal	12	14	18
	proposed postal	10	12	15

Postal service is not available for some shipments, however, because of commodity and size restrictions, lack of pick-up service, etc.

31/ See, e.g., Judge Shapiro's Initial Decision in the Rates case, and the airlines' and REA's briefs to the Board in that proceeding.

Moreover, ongoing changes in the industry are adding to the sources of friction between REA and the airlines. The airlines are becoming increasingly commited to the air freight business and not surprisingly have exhibited a strong interest in restricting the attractiveness of air express, in which revenues have to be split with REA, to traffic holding little interest for the airlines: small shipments moving door-to-door. REA, on the other hand, faced with loss of substantial volumes of traffic in its traditional markets as a result of changes in postal regulations and the growth and development of the air freight forwarder industry, has been demanding changes in its relationship with the airlines, and in the air express rate structure, designed to permit air express to compete successfully for much of the traffic that is now moving by the airlines' air freight services.

While the Board can regulate aspects of air freight service, it would be difficult (if at all possible) for the Board to force the parties to consent to conduct air express operations under the present system when they cannot come to terms. It is probably true that the Board could license REA to operate independently of an airline-REA agreement, and could compel the airlines to publish an express service tariff covering rates to REA. But, absent an agreement between the parties, there is no way to insure that the airlines will be willing to continue performing all the ground services at those airports -- 85 percent of the total -- where REA has no airport field offices.[32/] Consequently, no matter what the Board does in this proceeding, nationwide express service will remain in chronic danger of being interrupted or terminated as a result of eruptions of differences between the two sides.[33/]

32/ Even at major airports where REA has field offices, the airlines perform important ground services for air express.

33/ As noted earlier, the existing interim agreement terminates 60 days after the final order in this proceeding.

Further, the air express system depends upon REA's viability,[34/] and REA is in deep financial trouble. Its liabilities far exceed its assets. Its continued existence depends wholly upon the willingness of its creditors not to take advantage of their right to require REA's liquidation. REA has not turned a profit for years, and shows no prospects of doing so despite a major change in its operations. Rate increases would not be enough, as REA itself acknowledges.[35/] The crux of the matter is that REA must increase its traffic volume substantially, either by somehow increasing its air express traffic, or by carrying traffic under other authority, in addition to its air express business. REA agrees and is here seeking expanded authority. For reasons we now discuss, however, the authority REA seeks would raise a host of problems, and more to the point, simply would not work.

34/ Judge Keith found that if air express is to be continued without substantial interruption of service, there are no alternatives beyond the utilization of REA as the ground agency for the airlines. We agree. Among other things, while all of the air freight forwarder parties are applicants for air express authority, none is willing to relinquish its air freight forwarder authority to enter into an arrangement with the airlines on the same basis as REA. See, in this regard, pages 31-32 infra.

35/ Oral argument at pp. 19-20; Tr. 920, 921, 924-25.

VI. REA'S REQUEST FOR EXPANDED AUTHORITY

A. Independent Rate Authority

Under the present express agreements, while REA is the tariff agent for the airline parties in respect to the filing of air express tariffs with the Board, the rates embodied in those tariffs must have the approval of the airline parties. The result is an express service rate structure that has limited REA to relatively circumscribed roles in the air cargo industry. As mentioned earlier, under the existing air express rate structure, in general REA's service is attractive for small shipments needing door-to-door service. Conversely, shippers almost always find it more attractive to send relatively large shipments, including aggregations of shipments,[36/] via direct air carrier or air freight forwarder.[37/] To all intents and purposes REA is thus precluded from carrying such shipments, except in markets so small that no direct air carrier or air freight forwarder serves them, and except with respect to highly unusual commodities (e.g., gold bullion).[38/]

Under the independent rate authority change that REA proposes, REA could, subject only to Board review, alter the express service rate structure by decreasing rates applicable to the large, longer-haul shipments in the nation's larger markets, and in respect to particular commodities

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36/ See Investigation of Accumulation, Assembly and Distribution Rules, 12 CAB 337.

37/ As REA notes, apart from differences in the air freight and air express rates structures regarding general commodities, many air freight shipments travel under low specific commodity rates.

38/ Air express rates include pick-up and delivery service. Thus air express shippers who find it convenient or necessary to deliver their shipment to, or pick it up at, the airport, get no rate reduction. (Air freight rates, on the other hand, are usually made up of an airport-to-airport rate, plus additional charges for optional pick-up and delivery services.)

that are now the bread-and-butter of air freight forwarders and the direct air carriers. That is in fact REA's intention. And we would agree that if REA is to quickly increase its traffic by the hundreds of thousands of shipments it needs to return to viability, it is that traffic in those markets it must seek.

However, a grant of the authority REA seeks would not in fact serve to perpetuate the air express system in its present form. The airlines' position is that they would not enter into an air express agreement with REA subject to a condition that would give REA entirely independent tariff authority. We think their position is an entirely reasonable one. Air express is a joint arrangement of the airlines and REA. Both incur costs with every air express shipment. Under such circumstances it is understandable that the airlines have refused to enter into an arrangement whereby the rates to be charged for such shipments would be within the control of another company (REA) whose interests and cost structure vary considerably from those of the airlines.

While the airlines' position is not clear on this point, it appears that the airlines would be willing to lessen their veto power over air express rate changes if -- but only if -- the airlines could be assured that air express rates would in all cases be high enough to cover the airlines' fully-allocated costs (including profits) and that the airlines would receive a share of the revenues equal to those fully-allocated costs in respect to each shipment. However, a restriction of that nature in the independent rate authority REA

proposes would have the practical effect of preventing REA from adopting rates attractive enough to gain the substantial extra traffic it needs to maintain the existing air express system.[39/]

Even assuming that the airlines would enter into an air express agreement giving REA freedom to change air express rates, and further assuming that the rate changes would enable REA to attract significant amounts of new traffic, problems would still abound.

First, since the independent rate proposal presents the inherent difficulty of putting one joint venturer in a position to establish rates without the concurrence of the other, it would virtually assure bitter and continuing disputes between the two parties upon whose cooperation air express service depends -- REA and the airlines.

Second, the effectuation of REA's proposal would pose grave regulatory problems. The essence of REA's independent rate proposal is that it needs the flexibility to vary its rates on a market-by-market and commodity-by-commodity basis. (As mentioned earlier, with

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39/ REA concurs. See tr. 870-71.

minor exception, air express rates currently vary solely with distance and weight.) Because of the nature of air express and of REA's operations, determinations of the reasonableness of air express rates even under the present simplified rate structure become an "Odyssey of cost accounting," as Judge Shapiro remarked in the Rates case, requiring cost and traffic data in extraordinary amounts and detail. If REA were in a position to file tariffs that, for competitive reasons, varied by market and commodity, even further detail would be required in order for the Board to assure that, among other things, the lower rates proposed would not burden other traffic. The records here and in the Rates case show conclusively that REA and the airlines would be unable to furnish the needed information. 40/

Third, REA's efforts to return to profitability by seeking the business of larger, longer-haul shipments in major markets would necessarily require REA's management to even further divert its attention from small communities and small-package service to larger shipments moving between metropolitan areas. Shippers now dependent on REA -- i.e., small-package shippers and those in some small communities -- would thereby suffer a further deterioration

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40/ As we shall discuss in our forthcoming Rates opinion, the record in that case is woefully inadequate, in large part because REA simply was unable to supply considerable amounts of relevant data. Moreover, because of the nature of REA's operations, or because of its internal financial and traffic reporting systems, some of the data REA did supply was inaccurate. In this proceeding REA was unable to develop financial and traffic projections that went to the heart of its case. REA was able to produce other forecasts, but so many months late as to be unusable.

in air express service.

Fourth, REA claims that it would use its rate setting powers to attract shipments now moving by surface means. But whatever REA's intentions, the realities of the air cargo business and REA's operations are otherwise.[41/] It is inevitable that the results of REA's efforts to increase its traffic by rate changes would be the carriage by REA of substantial amounts of relatively heavy long-haul shipments that would otherwise have moved via the air freight services of the various air freight forwarders. This in turn would raise difficult questions about whether in many markets the forwarder industry's ability to continue to serve the public efficiently would be impaired.

41/ As REA's witness Nelson stated, REA needs to expand into the long-haul and high-density air freight markets. REA-T-9. See also, Ex. AFFA-200, 3-4.

B. Dual Air Express-Air Freight Forwarder Authority

Permitting REA to handle any given shipment under its air express authority when that seems most profitable, and under its forwarder authority when that best suited its corporate goals, would similarly give rise to many problems. And there would be no practical way of avoiding that result were we to grant REA air freight forwarder authority in addition to its express powers.

First, it would plainly present problems for the forwarder industry's health. With dual authority, REA could offer a full range of rapid delivery services -- including "priority" services -- that could not be matched by any other forwarder. If this helped REA to dominate the entire indirect carrier industry, as it might, it would inevitably lessen competition among existing forwarders and, perhaps, sap the vitality of that group. Of course, that would thwart this agency's primary goal in licensing REA and the forwarders -- namely, to promote the vigorous development of air freight.

Second, it appears that the existing air express arrangement depends heavily upon cross-subsidization between the various air express markets. The economics of air cargo transportation are such that, with dual authority, in many cases REA would use its air freight forwarder authority to carry traffic that is now moving by air express at a profit (typically, shipments moving in dense, heavily trafficked markets) while continuing to use its air express authority in the thin, unprofitable ones. Thus the dual authority REA seeks would reduce the extent to which the profitable air express traffic could cross-subsidize the unprofitable traffic. One result would be that shippers in small communities would have to pay higher air express rates without enjoying any compensating improvements in service.

Other concerns militate against dual authority. For example, the cost accounting difficulties the Board already faces when seeking to evaluate air express rates would get considerably worse. In addition, dual authority could cause serious public confusion among REA's customers as to (a) the nature of the service any given shipment would be receiving, and (b) the proper rates to be charged for such service.[42/] Finally, dual authority would inevitably divert REA's attention from small-package and small-community service for the same reason that, as discussed above, a grant of independent rate authority to REA would.

But we need not dwell on these matters since a grant to REA of the dual air express and air freight forwarder authority it seeks would be futile. Since continued air express service is dependent upon the airlines and REA entering into new air express agreements, and because of the airlines' justifiable concerns about the conflict of interest difficulties inherent in the dual authority REA seeks and the consequent impact on the airlines' ability to spread their air express costs over a reasonable volume of express traffic, they have served notice that they would not become parties to any express agreement if REA was awarded air freight forwarder authority.

42/ As noted by AFFA, the safeguards proposed by REA to avoid public confusion are woefully inadequate. In any event, the purported advantages to be gained by dual authority would be greatly diminished by bifurcated operations such as proposed by REA.

VII. TERMINATION OF THE AIR EXPRESS AGREEMENTS AND AWARD OF AIR FREIGHT FORWARDER AUTHORITY TO REA

REA's monopoly control over air express has always been an anom[illegible] in an air transport system enjoined to preserve "[c]ompetition to the extent necessary * * *" (49 U.S.C. 1302). REA was originally licensed as the exclusive ground agent for air express on a temporary basis. It has been allowed to linger in that status because there was "no substitute available."[43/] Now we have come to a time when REA's original sterling features have long since tarnished; and its continuance as the airline's exclusive ground agent for an express service promises more harm than good. In contrast, promising substitutes for the joint REA-airlines air express arrangement now exist in profusion. Whether we try to perpetuate the present system through some modified form of monopoly, or whether we open the door to the forces of competition, the methodology for expedited shipping of small packages must undergo a profound--and not entirely predictable--transformation. Recognizing that some uncertainties are thus inevitable, the Board prefers to trust in competition, rather than monopoly, as the agent of change. For our regulatory experience has always tended to show that the free play of competition has stimulated the development of air cargo.[44/] That past history, we hope, will also prove to be prologue for the future here.

43/ See footnote 2, p. 6, supra.

44/ See Motof Carrier Investigation and Household Goods Investigation, supra.

Accordingly, for the reasons we have set forth at length, we are terminating our approvals of the air express agreements, and are withdrawing REA's air express exemption authority. As we discuss below, we are concommitantly authorizing REA to operate as an air freight forwarder.

Because the public would be best served by enabling, to the extent that we can, shippers, REA, and the other elements of the air cargo industry to be able to plan for the forthcoming changes in the industry, we are delaying by a half-year the effective date of our action to terminate the air express arrangement, and shall approve interim air express agreements to the extent that they carry forward the terms of the present agreements and are marked to expire in conformance with our order herein.

As we stated earlier, we have concluded that now that REA will no longer be the exclusive indirect air carrier of air express shipments, the public interest would be served by the grant to REA of air freight forwarder authority. We have determined to make this grant notwithstanding REA's financial ill-health, and its present inability to function effectively as an indirect air carrier, because we believe that REA's prospects as an air freight forwarder vary considerably from its expectations as a party to what has become an unworkable air express arrangement. There is no guarantee that REA will continue to operate whatever action we might take. But its reformation into an air freight forwarder will have numerous advantages for it, as its management recognizes. It will be able to limit its business to the kinds

of traffic, in the areas of the county, it can deal with most effectively. Its rate policies will no longer have to take into account airline partners whose interests vary so greatly from REA's. And the size, identity and breadth of coverage it developed as the airlines' ground agent for air express should stand it in good stead in its efforts to compete with other forwarders on equal terms.

REA holds operating rights issued by the Interstate Commerce Commission to haul general commodities, and it operates over-the-road service between a number of markets over 500 miles apart. REA therefore comes within the Board's Long-Haul Motor Carrier Regulations, 45/ which are set forth in Subpart I of section 296 of the Economic Regulations. Summarized here, Subpart I provides that the Board will approve an application if it appears (a) that the applicant is capable of performing the proposed air transportation and of conforming to law; (b) that the applicant will conscientiously promote cargo and will benefit air transportation; and (c) that the applicant's operations will not create a monopoly and thereby restrain competition or jeopardize another air carrier, or will otherwise be inconsistent with the public interest.

45/ A "long-haul motor carrier" is defined as a motor carrier holding operating rights issued by the ICC to haul general commodities between any pair of points that are over 500 miles apart, or an affiliate of such a carrier.

REA's application meets the regulatory criteria. It is a well-established indirect air carrier that has long been providing and promoting an air cargo service. Its history as such readily demonstrates that it will conform to the Act and the Board's Rules and Regulations and will conscientiously promote air freight. In fact, it has established in this proceeding that its future depends upon its ability to develop competitive air-oriented operations. REA's entry into forwarding will provide the type of public benefits contemplated by the Board's long-haul motor carrier policy. In this respect we believe that REA's entry will provide a wide range of services to a great many communities, since REA will now be able to offer conventional air freight in response to the public need to close the gap between cargo carried and available cargo space. Further, these benefits will not be offset by other important considerations such as the impact that its entry will have on other forwarders. While it is true that REA will enter the field in a strong position, and has the potential for diverting some traffic from existing forwarders, it does not appear that these factors require a denial of air freight forwarding authority, since, to the extent that REA does divert traffic from existing forwarders, this should be more than offset by the forwarders' ability to compete for small-package business previously monopolized by air express. In these circumstances, we are unable to conclude that REA's air forwarding operations will have an adverse impact on the forwarder industry.

Finally, we appreciate that all Subpart I air freight forwarder authorizations are scheduled to be reviewed by the Board shortly. The Board will determine at that time whether the long-haul motor carriers regulated by Subpart I have in fact been promoting air transportation during the periods of their authorization. However, we shall not require REA to participate in that review, since it has demonstrated at length in this proceeding that it will conscientiously promote air freight and that its authorization as an air freight forwarder is otherwise consistent with the public interest.

Accordingly, upon the establishment by REA that it is in compliance with the various technical requirements of Part 296, domestic freight forwarder authorization will issue, effective on the date of termination of REA's air express authority.

VIII. HIGH PRIORITY SERVICE

The nature of a very limited number of commodities is such that it is important they receive the fastest possible service, and that they can be assured next-flight-out transportation.[46] Similarly, shippers of commodities that usually do not warrant such preferred treatment will occasionally desire extra-fast service and the assurance that their shipment will leave on the next flight out.

Air transportation is almost always the fastest possible way to ship goods. If a shipment cannot be gotten to its destination in time by air, the chances are very high that it cannot meet its deadline any other way. In our view this places a special responsibility on the nation's air carriers to provide a means whereby extra-fast transportation is made available.

We think that these considerations lead inescapably to the conclusion that, as part of the airlines' duty to provide reasonable transportation, they are under an obligation to offer highly expedited priority service under tariffs so providing.[47]

The airlines argue that the provision of such service would be impracticable since it would be difficult to give assurance that all shippers needing such service could have if anytime they wanted it, and because priority service

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46/ See, e.g., Tr. 2402; Exhs. AFFA-405, EAF-T-1, page 4.

47/ We cannot conclude from the evidence herein that this obligation extends beyond airport-to-airport service. It is plain, however, that highly expedited door-to-door service will be offered by the forwarders and, perhaps, the direct air carriers, once the new airport-to-airport service is underway.

requires coordination by a single ground agent. We disagree. The first contention amounts to an argument that the airlines will sometimes be deluged with traffic shipped under the priority tariff. But the evidence of record suggests that the odds of that happening are extremely remote. And insofar as coordination among airlines is concerned, the record does not suggest that a single, nationwide ground agent is indispensible. Some inter-airline coordination will be necessary, however, and accordingly, we will be receptive to requests for inter-carrier discussions about this matter. In any event, we think such concerns are relevant to the nature of the tariff rules that should govern such traffic, and to what reasonable rate levels for such traffic should be, not to whether airlines can feasibly provide the service.

In view of the foregoing considerations and all the facts of record, it is found that:

1. Agreement CAB Number 12866, initially approved by Order E-13764, dated April 21, 1959, as amended (the most recent amendment being approved by Order 72-12-109, dated December 22, 1972) (a) is adverse to the public interest; (b) should accordingly be withdrawn effective upon the termination of the authorization described in paragraph 3 below; and (c) should be disapproved on the same date.

2. Agreement CAB Number 17935, initially approved by Order E-22271, dated June 4, 1965, as amended (the most recent amendment being approved by Order 72-7-5, dated July 3, 1972) (a) is adverse to the public interest; (b) should accordingly be withdrawn effective upon the termination of the authorization described in paragraph 3 below; and (c) should be

disapproved on the same date.[48/]

3. The continuation of the exemption authority of REA Express, Inc. to conduct operations in air transportation initially granted by Order Serial Number 941, dated March 13, 1941, as amended (the most recent amendment of that authority being granted by exemption Order E-22273, dated June 4, 1965) (a) is not in the public interest; and (b) should accordingly be terminated on the date that REA commences air freight forwarder operations pursuant to an authorization issued in accordance with our decision herein, or 180 days from the service date of the Order in this proceeding, whichever date occurs first.

4. REA Express, Inc. (a) is capable of performing air freight forwarder operations authorized by Subpart I of Part 296 of the Board's Economic Regulations and of conforming to the Act and the regulations thereunder; (b) will conscientiously promote air cargo and will benefit air transportation; and (c)in its operations, alone or together with those of other air freight forwarders, will not create a monopoly or monopolies and thereby restrain competition or jeopardize another air carrier, or otherwise be inconsistent with the public interest.

5. It is in the public interest to grant REA Express, Inc., authority under Subpart I of Part 296 of the Board's Economic Regulations as a domestic air freight forwarder effective upon termination of the authorizations described in paragraph 3 above.[49/]

48/ Agreement CAB Number 17935 expires by its own terms 60 days after final decision in Dockets 22387 and 22388. Since no final decision has been issued in Docket 22387, the agreement continues in effect.

49/ We shall require that REA update its air freight forwarder application for administrative purposes. Issuance of operating authority shall be subject to the completion of the technical requirements, in accordance with the procedures set out in section 296.43 of the Board's Economic Regulations. Since the amendments are technical in nature, no filing fees will be required.

6. Certificated air carriers providing scheduled interstate and overseas air transportation are under an obligation to offer priority service under tariffs so providing as part of their duty to provide adequate interstate and overseas air transportation.

7. The Board should retain jurisdiction over this proceeding for the purpose of reviewing at any time the authorization granted herein and of imposing at any time, with or without hearing, such other conditions as the Board may find just and reasonable.

8. Except to the extent granted herein, all applications, requests, and motions involved herein should be denied, and this investigation should be terminated.

An appropriate order will be entered.

TIMM, Chairman, GILLILLAND, Vice Chairman, and MINETTI, Member, concurred in the above opinion. WEST and O'MELIA, Members, did not participate.

Order 73-12-36

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

Adopted by the Civil Aeronautics Board
at its office in Washington, D.C.
on the 7th day of December, 1973

EXPRESS SERVICE INVESTIGATION	:	Docket 22388

O R D E R

A full public hearing having been held in the above-entitled proceeding and the Board, upon consideration of the record, having issued its opinion containing its findings, conclusions, and decision;

IT IS ORDERED:

1. That approval of Agreement CAB Number 12866, initially approved by Order E-13764, dated April 21, 1959, as amended (the most recent amendment being approved by Order 72-12-109, dated December 22, 1972) be and it hereby is withdrawn effective upon the termination of the authorizations described in paragraph (3) below, and said agreement be and it hereby is disapproved on the same date.

2. That approval of Agreement CAB Number 17935, initially approved by Order E-22271, dated June 4, 1965, as amended (the most recent amendment being approved by Order 72-7-8, dated July 5, 1972) be and it hereby is withdrawn effective upon the termination of the authorizations described in paragraph (3) below, and said agreement be and it hereby is disapproved on the same date.

3. That the exemption authority of REA Express, Inc. to conduct operations in air transportation initially granted by Order Serial Number 941, dated March 13, 1941, as amended (the most recent amendment authority being granted by exemption Order E-22273, dated June 4, 1965) be and it hereby is terminated on the date that REA commences air freight forwarder operations pursuant to an authorization issued in accordance with our decision herein, or 180 days from the service date of this Order whichever date occurs first.

4. That an operating authorization to engage in air transportation as a domestic air freight forwarder in accordance with Part 296 of the Board's Economic Regulations shall be issued to REA Express, Inc. upon (a) completion of the technical requirements described herein, and (b) termination of the authorizations described in paragraph (3) above.

5. That the Board shall retain jurisdiction of this proceeding for the purpose of reviewing the operating authorization granted herein and/or imposing at any time, with or without hearing, such conditions as the Board may find just and reasonable.

6. That, except to the extent granted herein, all motions, applications, and requests involved herein be and they hereby are denied.

By the Civil Aeronautics Board:

EDWIN Z. HOLLAND

Secretary

(SEAL)